

CONFIDENTIAL (FR) CLASS II-FOMC

*Material for
Staff Presentation to the
Federal Open Market Committee*

July 9, 1980

Principal Assumptions

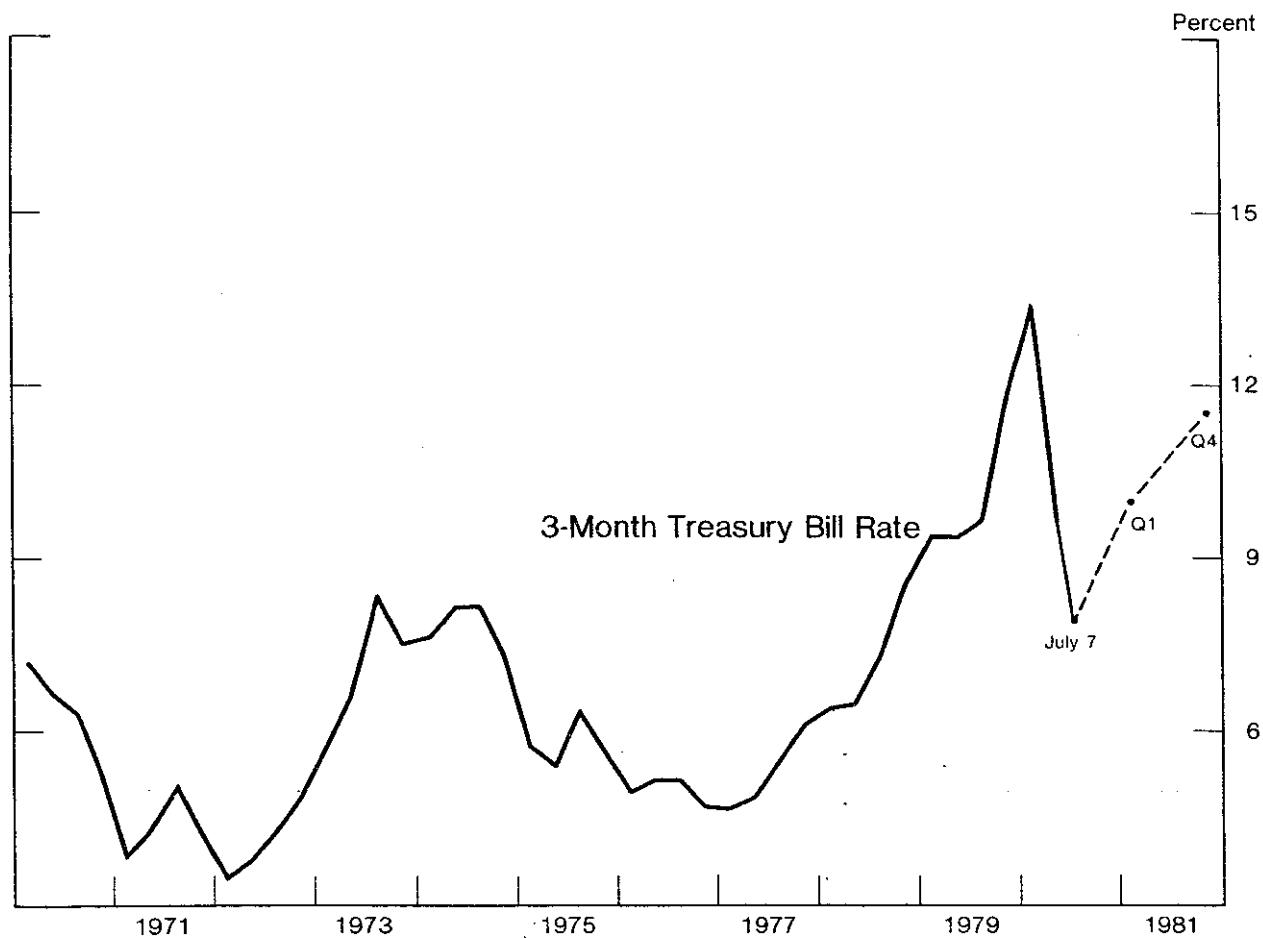
Monetary Policy

- Growth of M-1A averages 4½ percent in 1980 and 1981

Fiscal Policy

- Unified budget expenditures of \$575 billion in FY 1980 and \$626 billion in FY 1981
- \$28 billion tax cut effective January 1981
 - \$20 billion personal rate reduction
 - \$5 billion corporate rate reduction
 - \$3 billion initial effects of accelerated depreciation

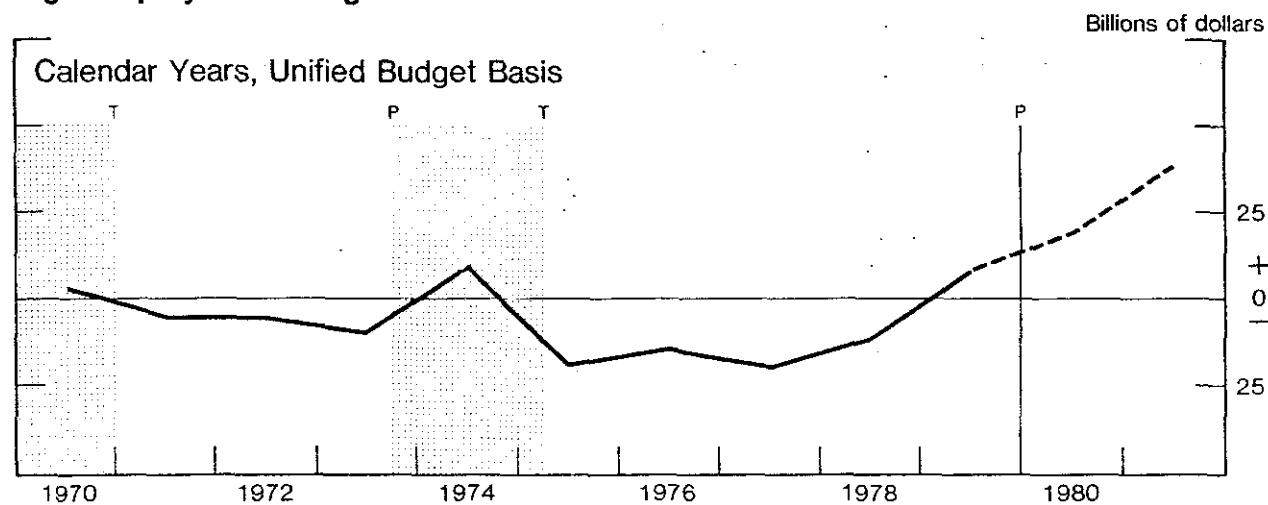
Interest Rates



Federal Budget

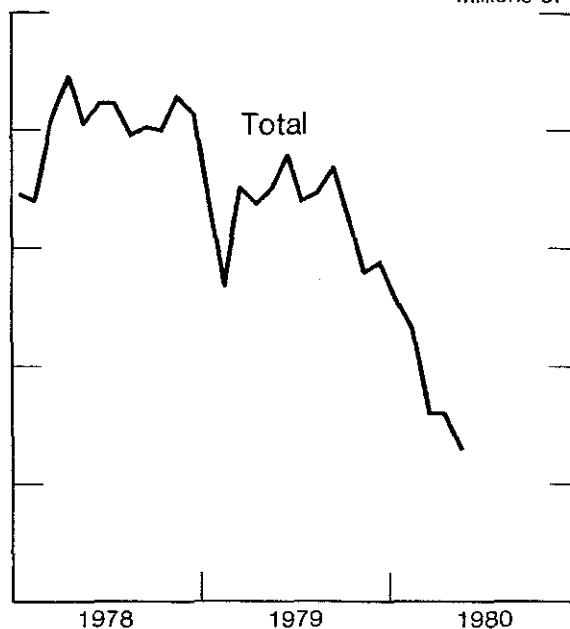
	Billions of dollars			
	Fiscal Years, Unified Budget Basis			
	1979	1980		1981
	Actual	Admin.	FRB	Admin.
Outlays	494	n.a.	575	n.a.
Receipts	466	n.a.	523	n.a.
Deficit	28	55-60	52	30-35
				53

High-employment Budget

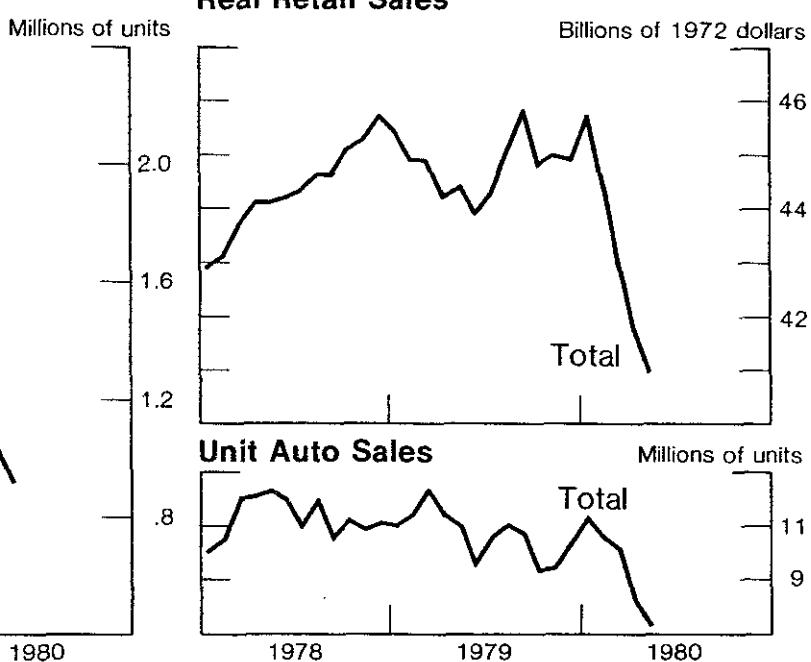


Economic Activity

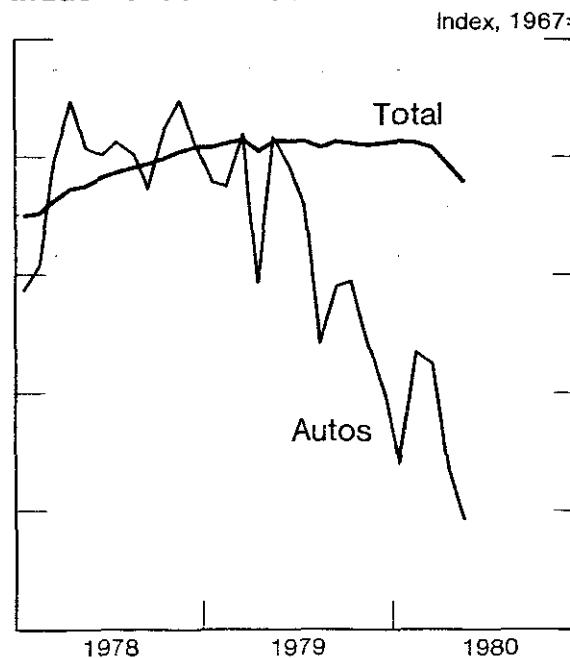
Housing Starts



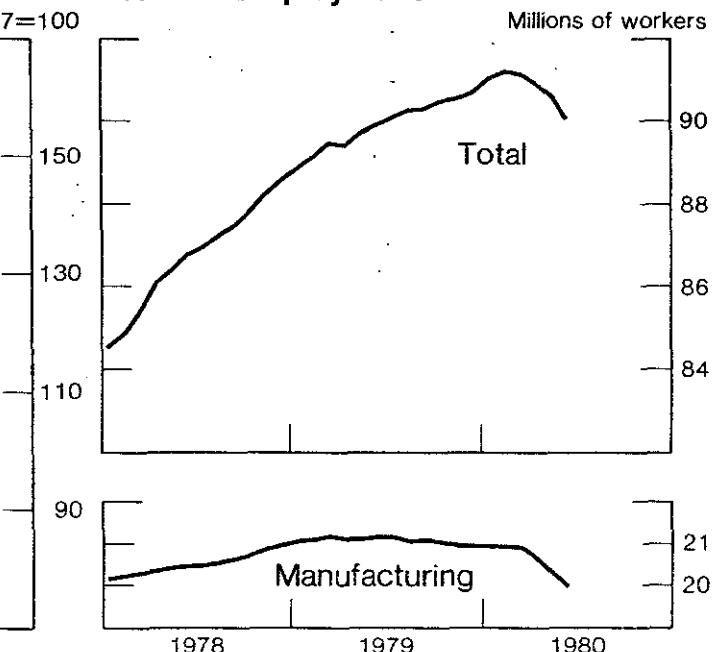
Real Retail Sales



Industrial Production

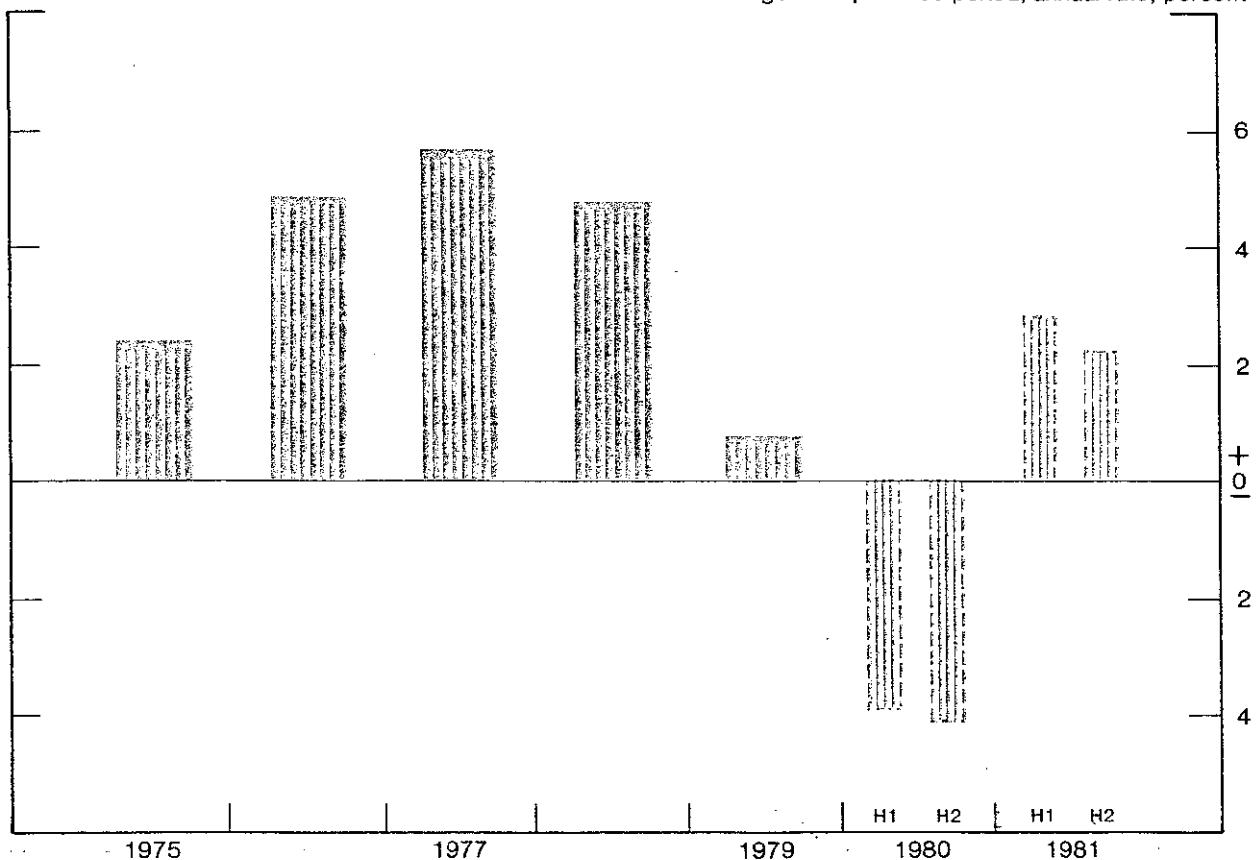


Nonfarm Employment



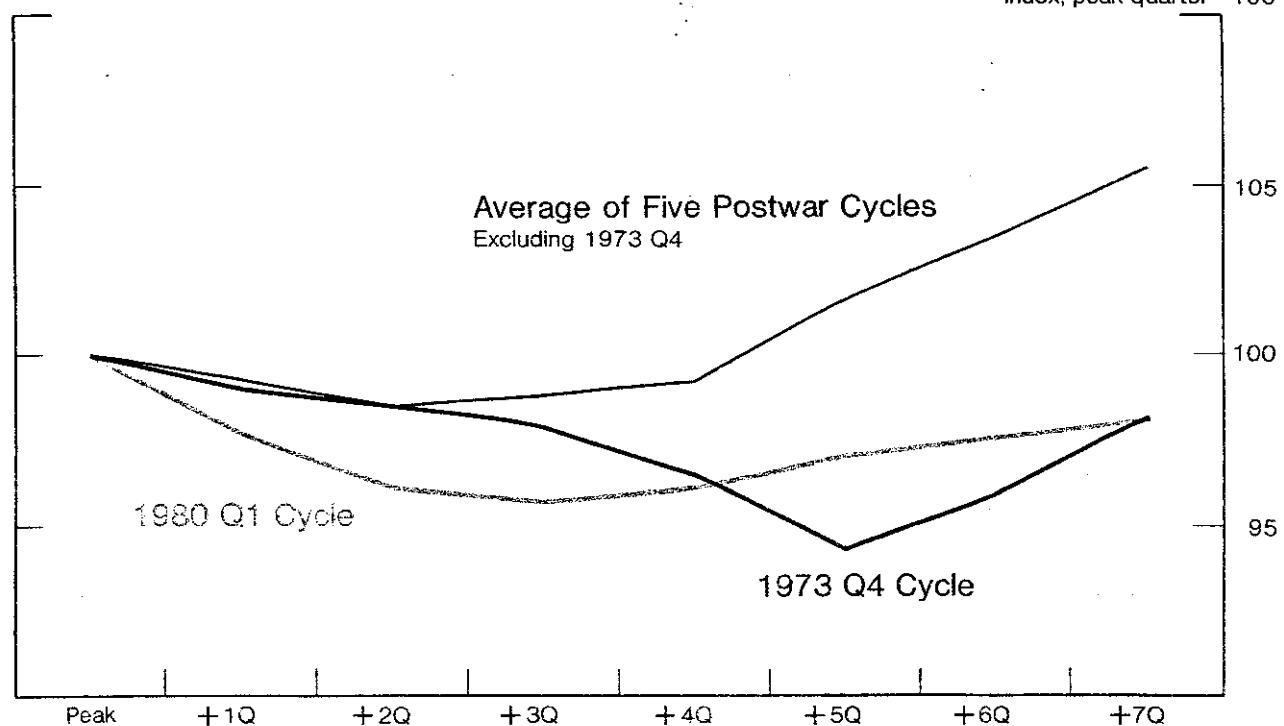
Percent Change in Real GNP

Change from previous period, annual rate, percent

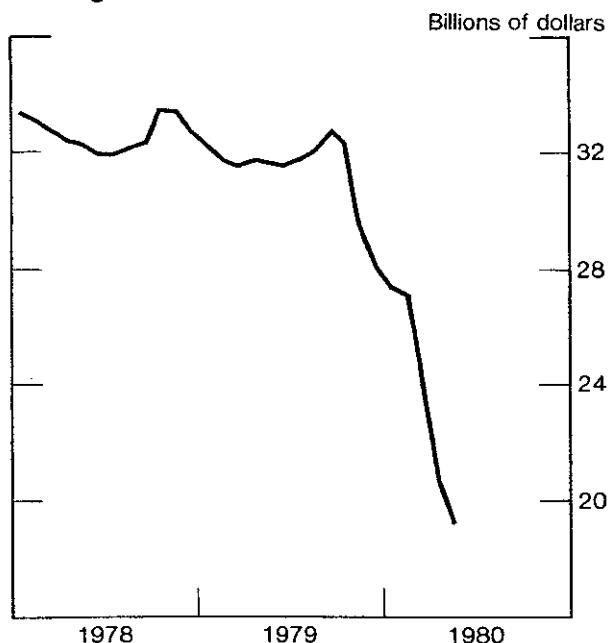


Cyclical Comparisons of Real GNP

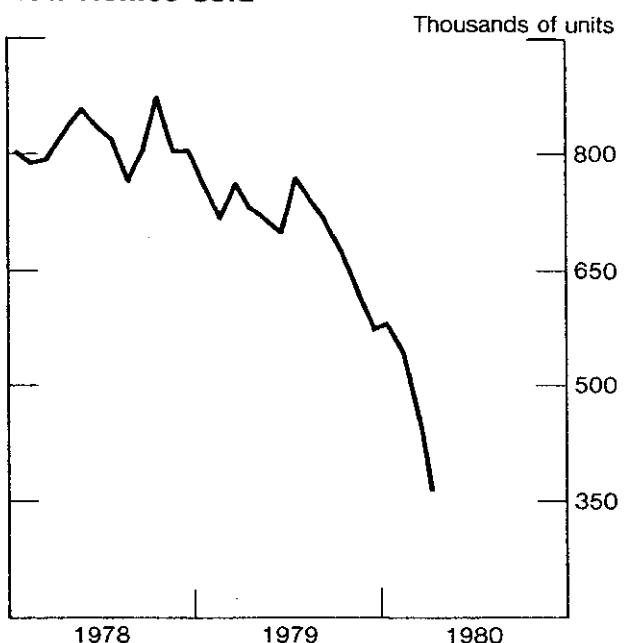
Index, peak quarter = 100



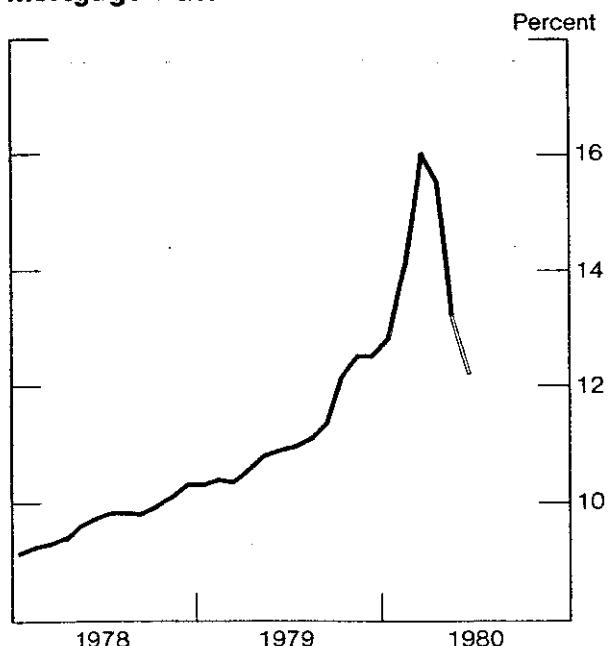
Outstanding Commitments at Savings and Loan Associations



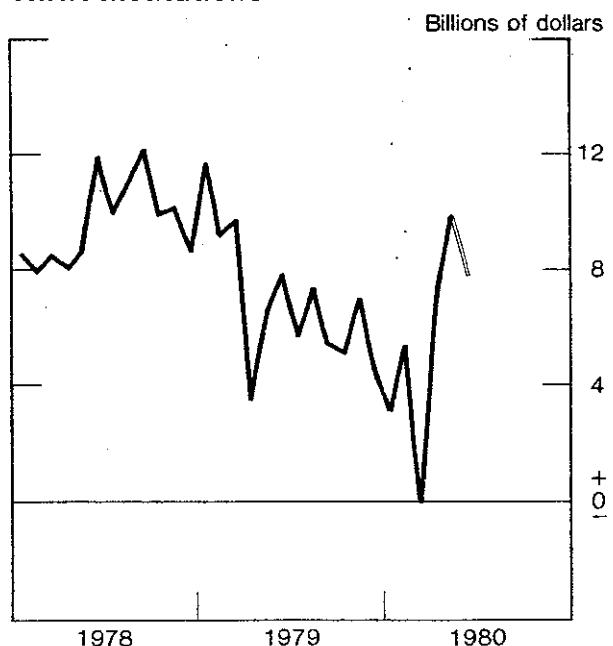
New Homes Sold



Mortgage Rate

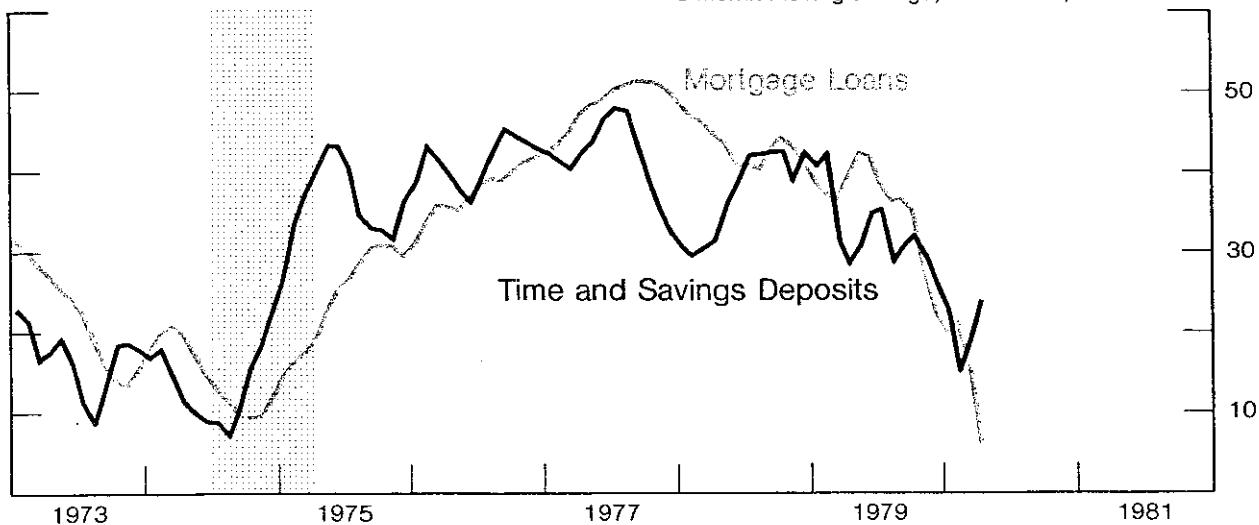


Deposit Growth at Thrift Institutions



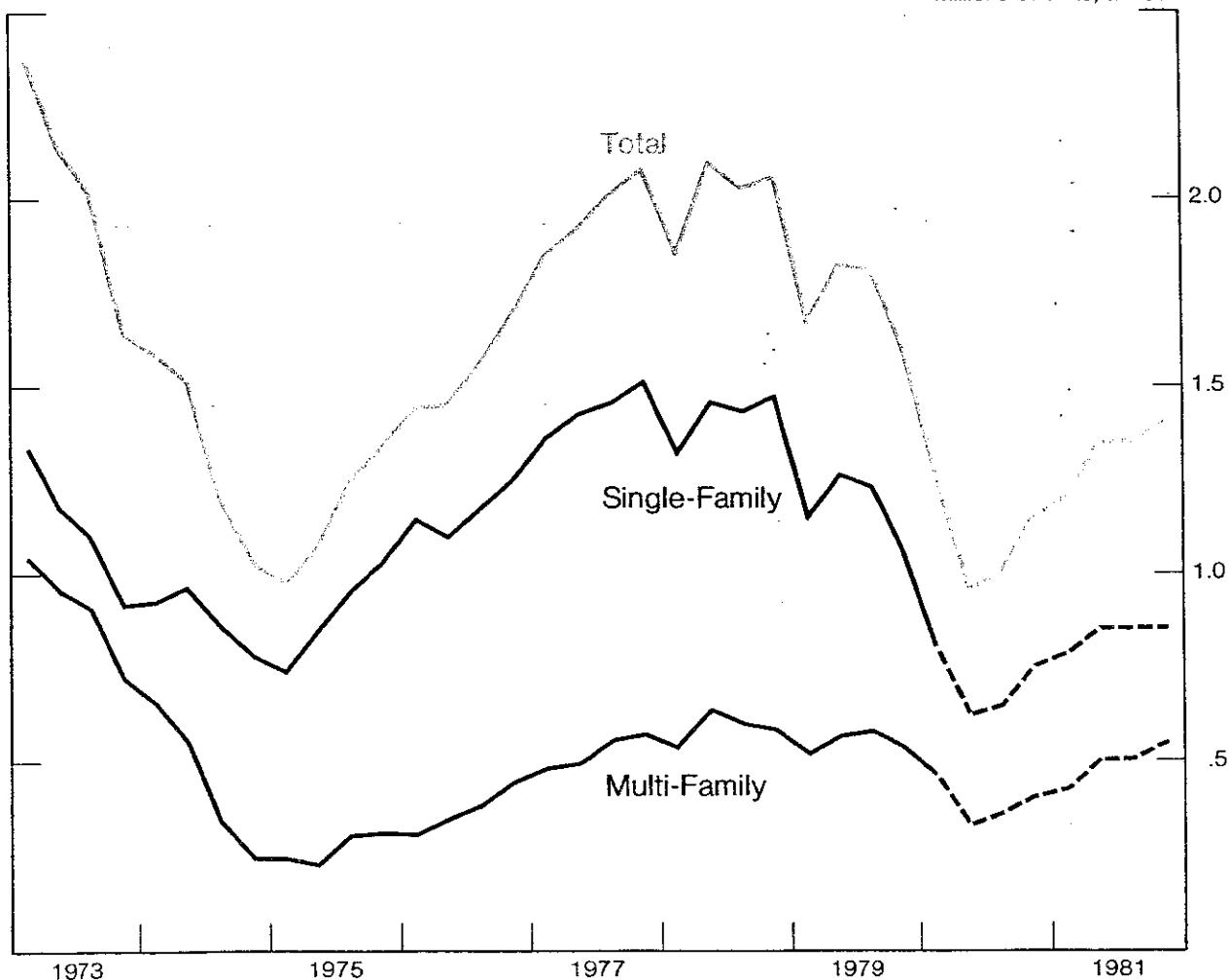
Net Change in Selected Assets and Liabilities of Savings and Loan Associations

3-month moving average, annual rate, billions of dollars

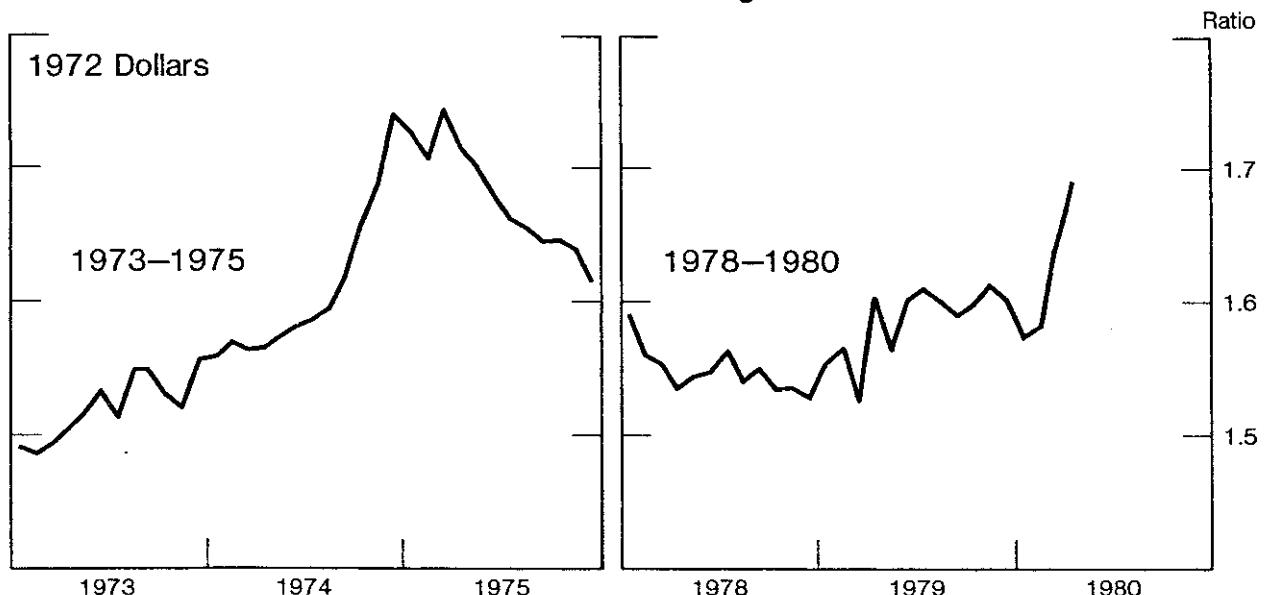


Housing Starts

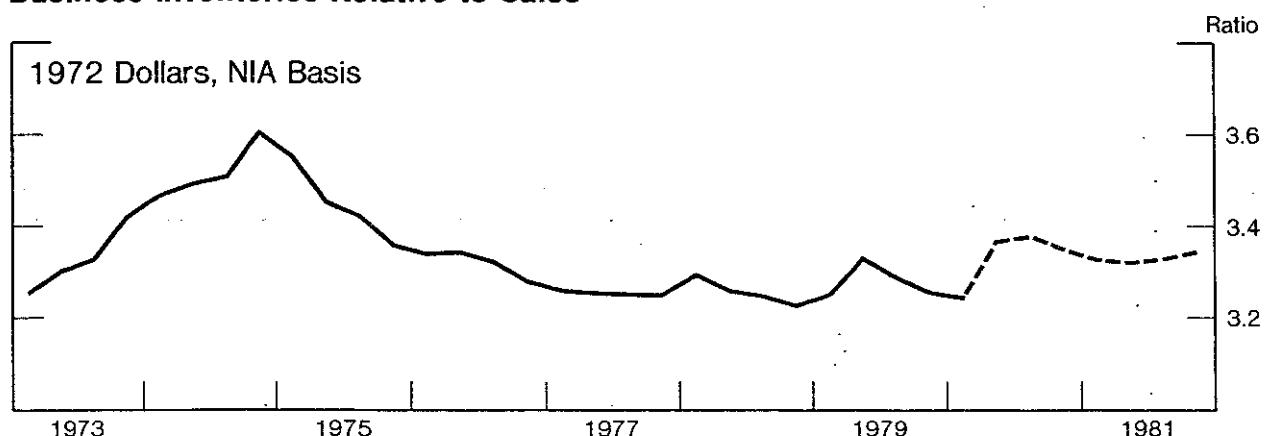
Millions of units, annual rate



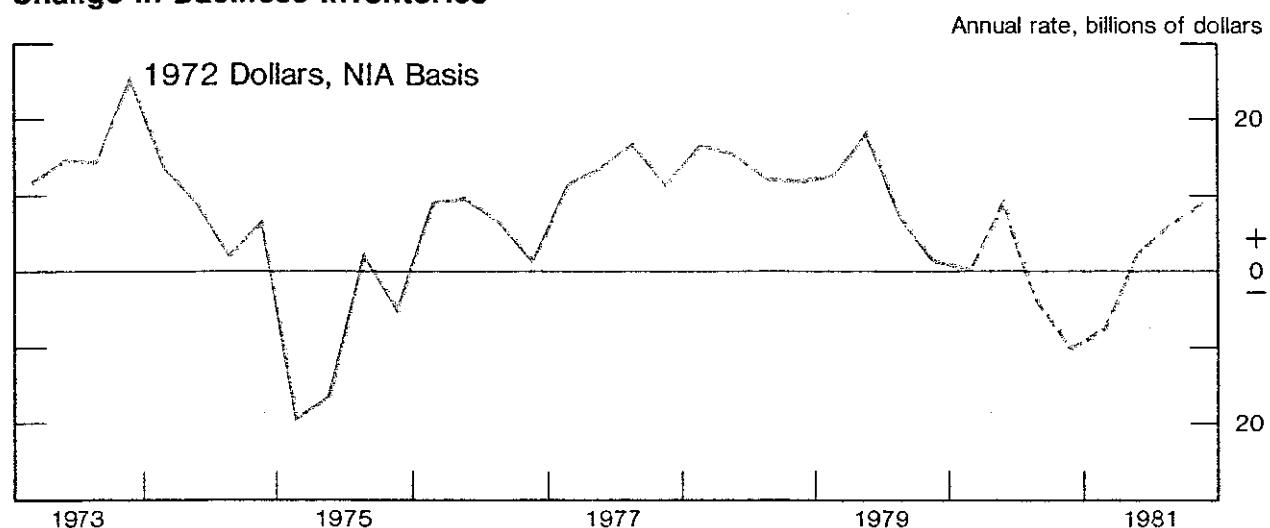
Inventories Relative to Sales, Total Manufacturing and Trade



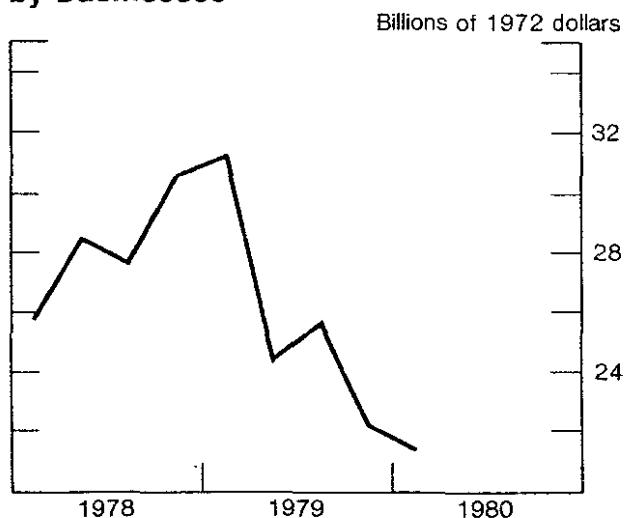
Business Inventories Relative to Sales



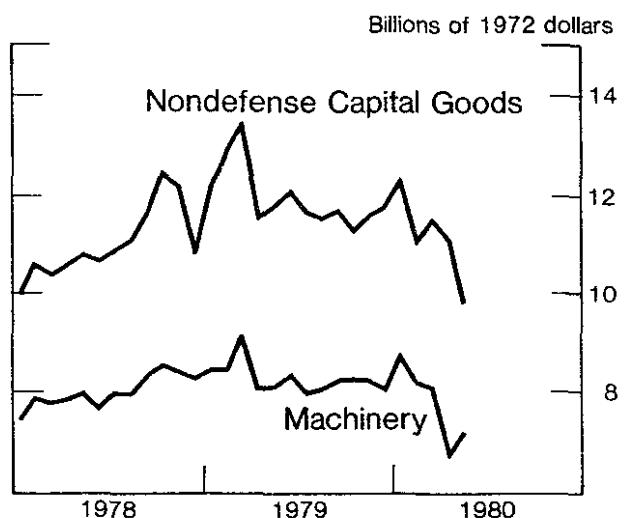
Change in Business Inventories



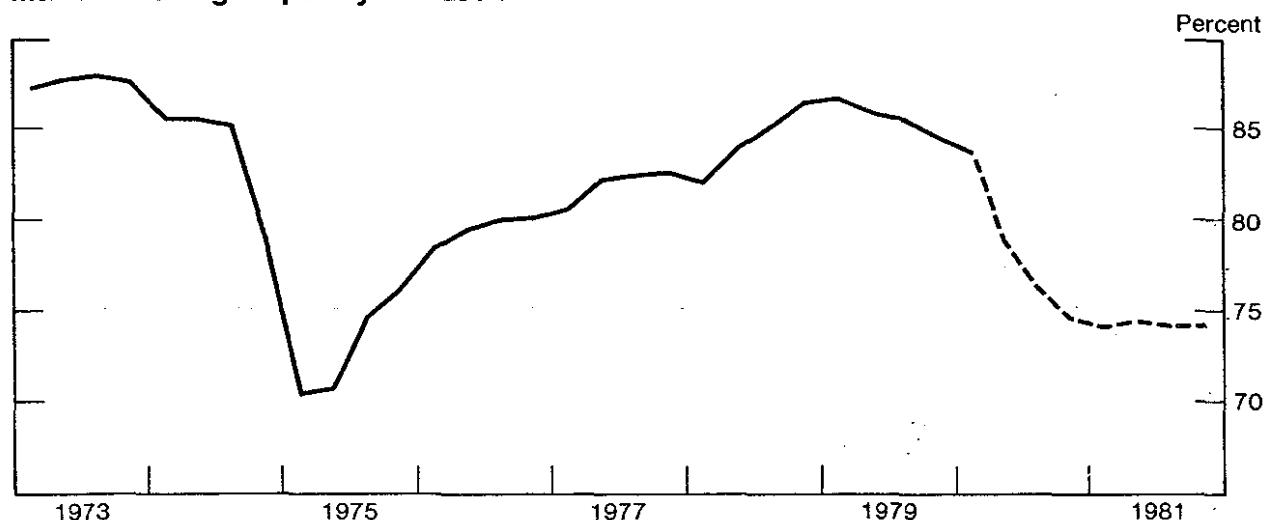
Purchases of Trucks and Cars by Businesses



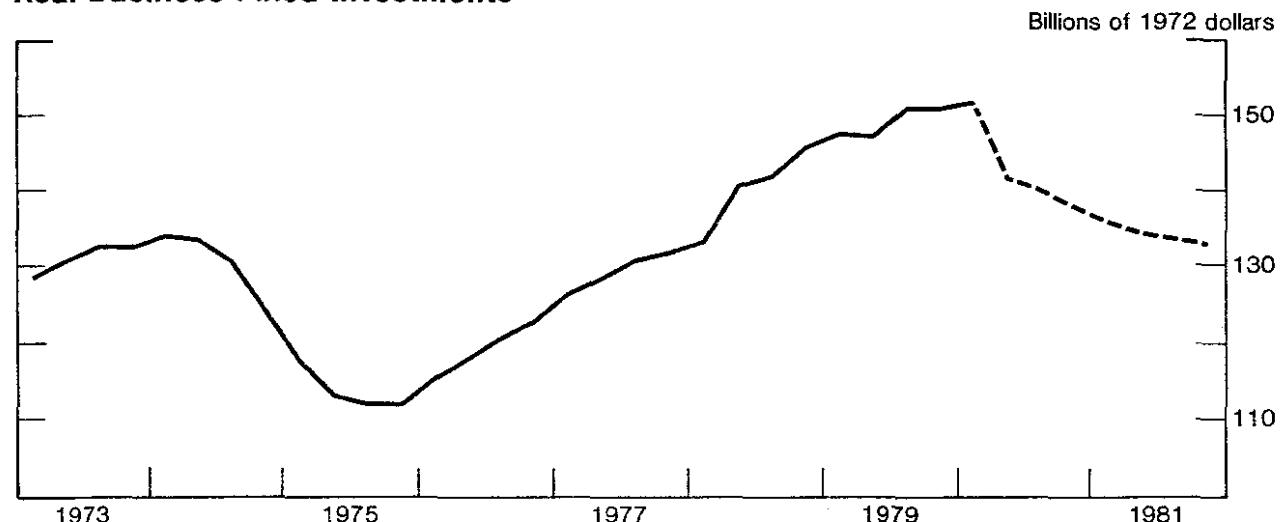
Real New Orders



Manufacturing Capacity Utilization

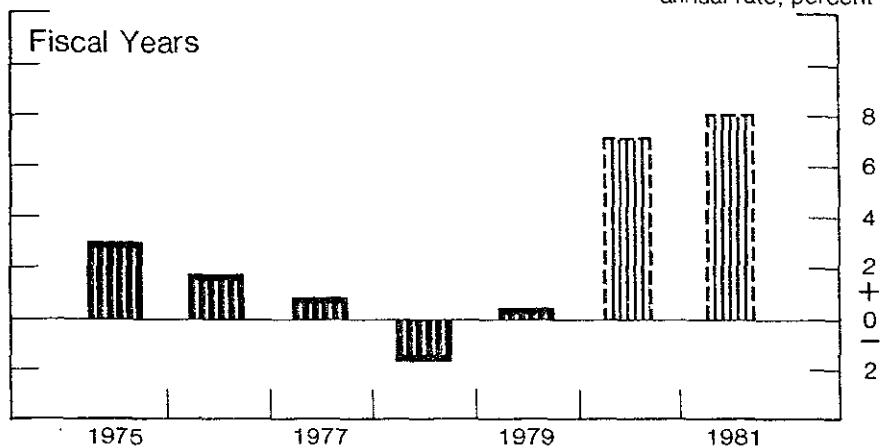


Real Business Fixed Investments



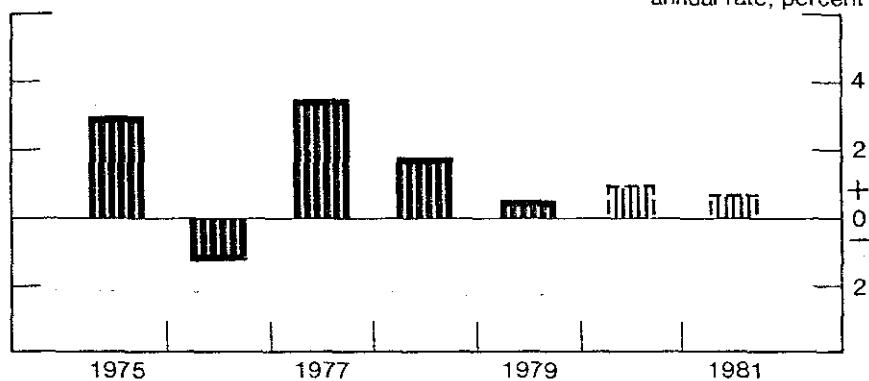
**Real Defense Spending
Less Compensation**

Change from previous period,
annual rate, percent



**Real Government* Purchases of
Goods and Services**

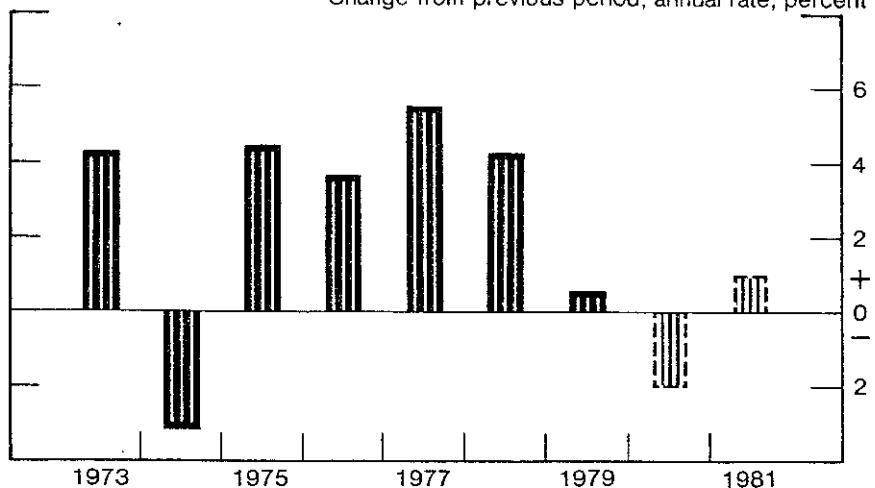
Change from previous period,
annual rate, percent



* Federal and State and local

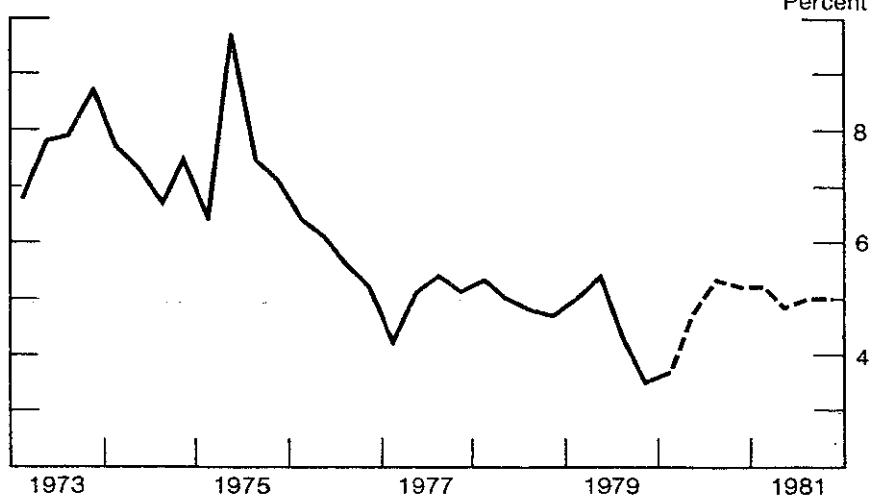
Real Disposable Personal Income

Change from previous period, annual rate, percent



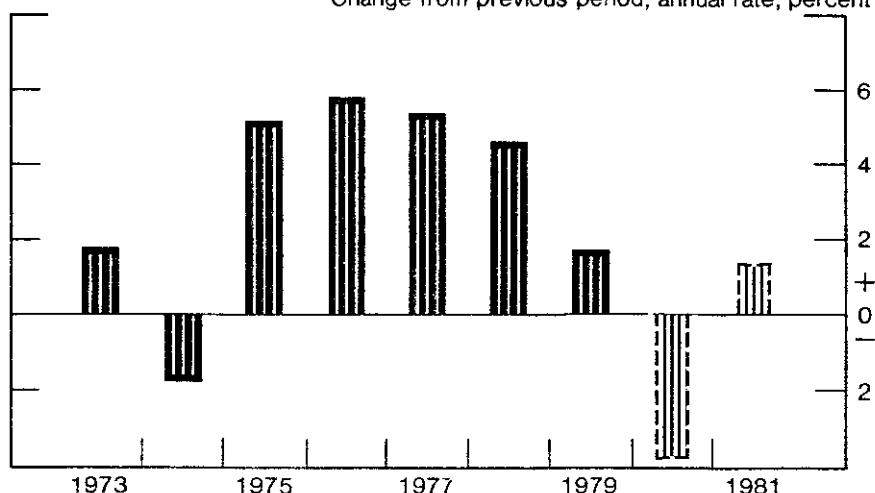
Saving Rate

Percent



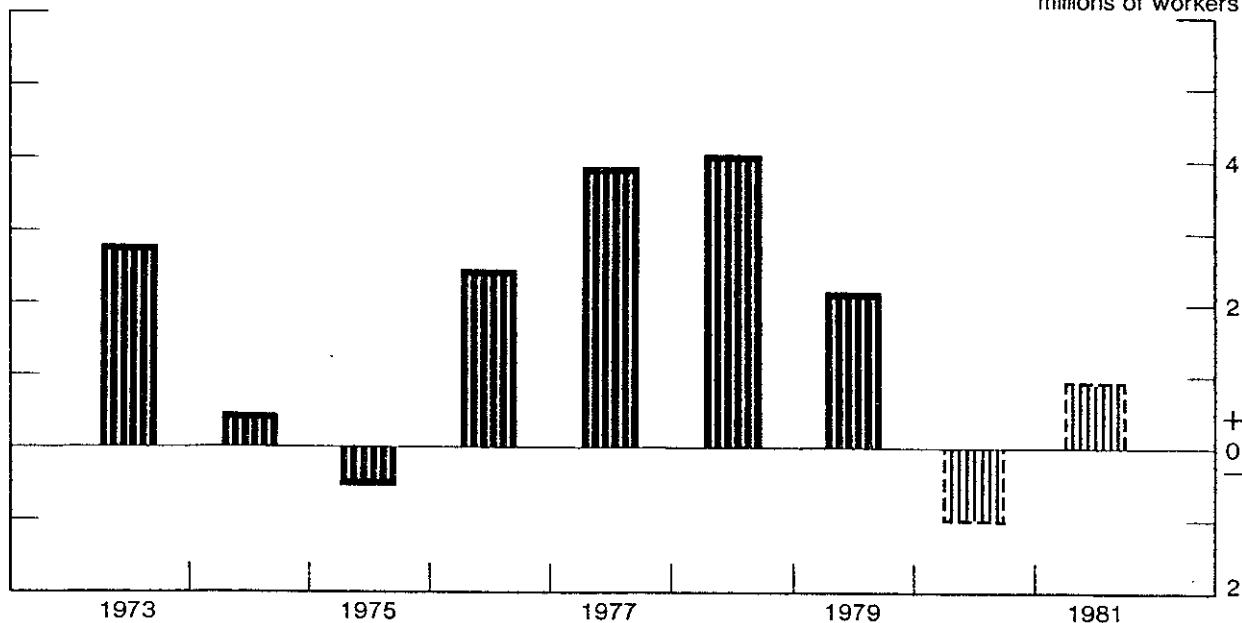
Real Personal Consumption Expenditures

Change from previous period, annual rate, percent



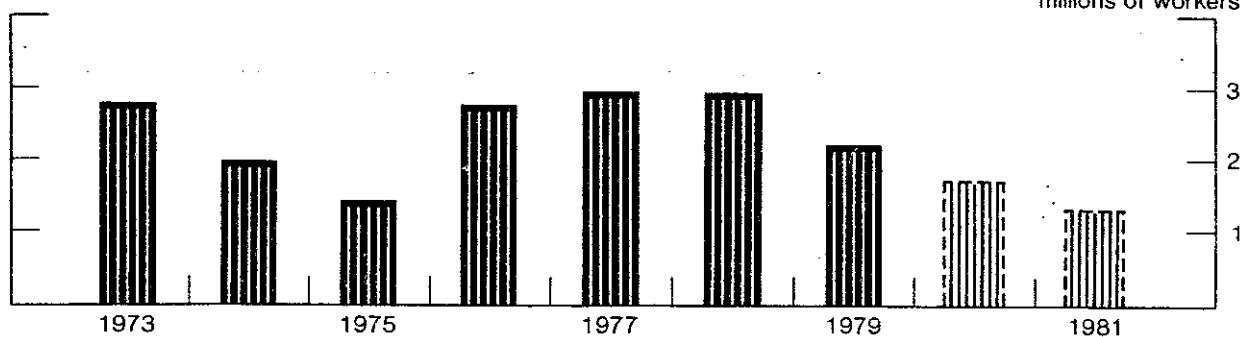
Nonfarm Employment

Change from Q4 to Q4, annual rate,
millions of workers



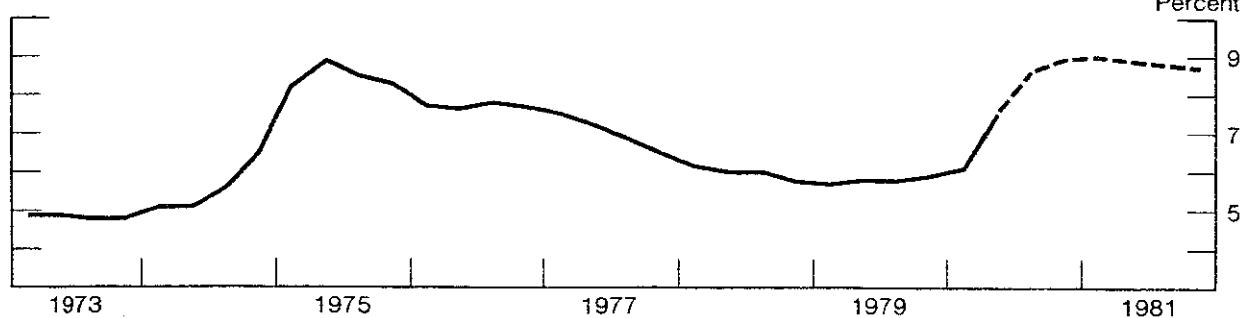
Civilian Labor Force

Change from Q4 to Q4, annual rate,
millions of workers

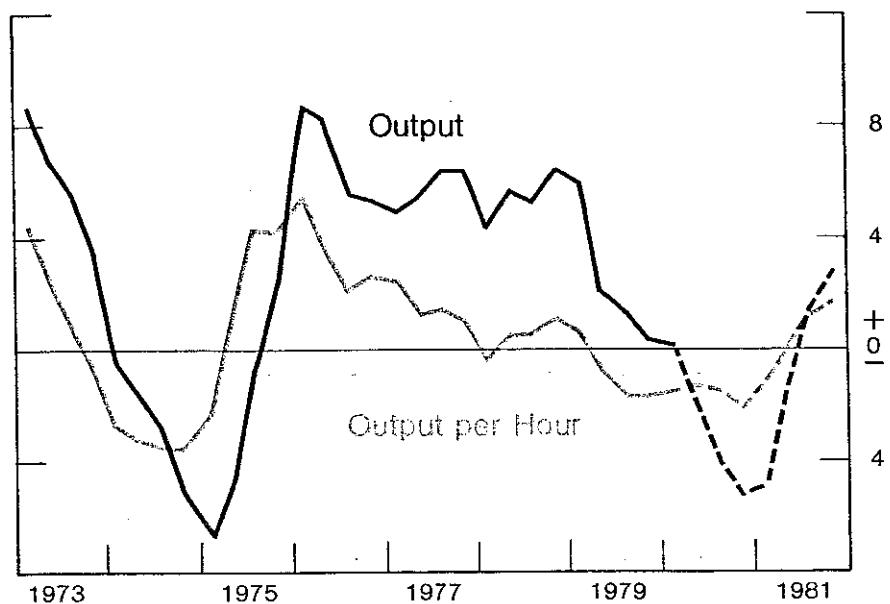
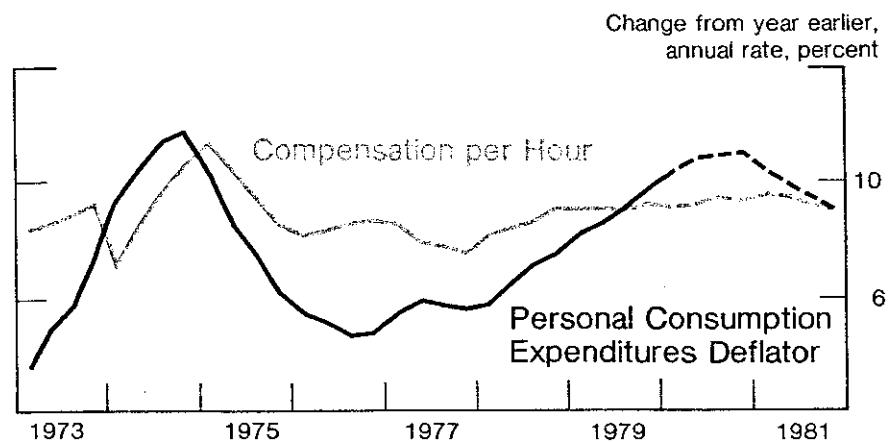


Unemployment Rate

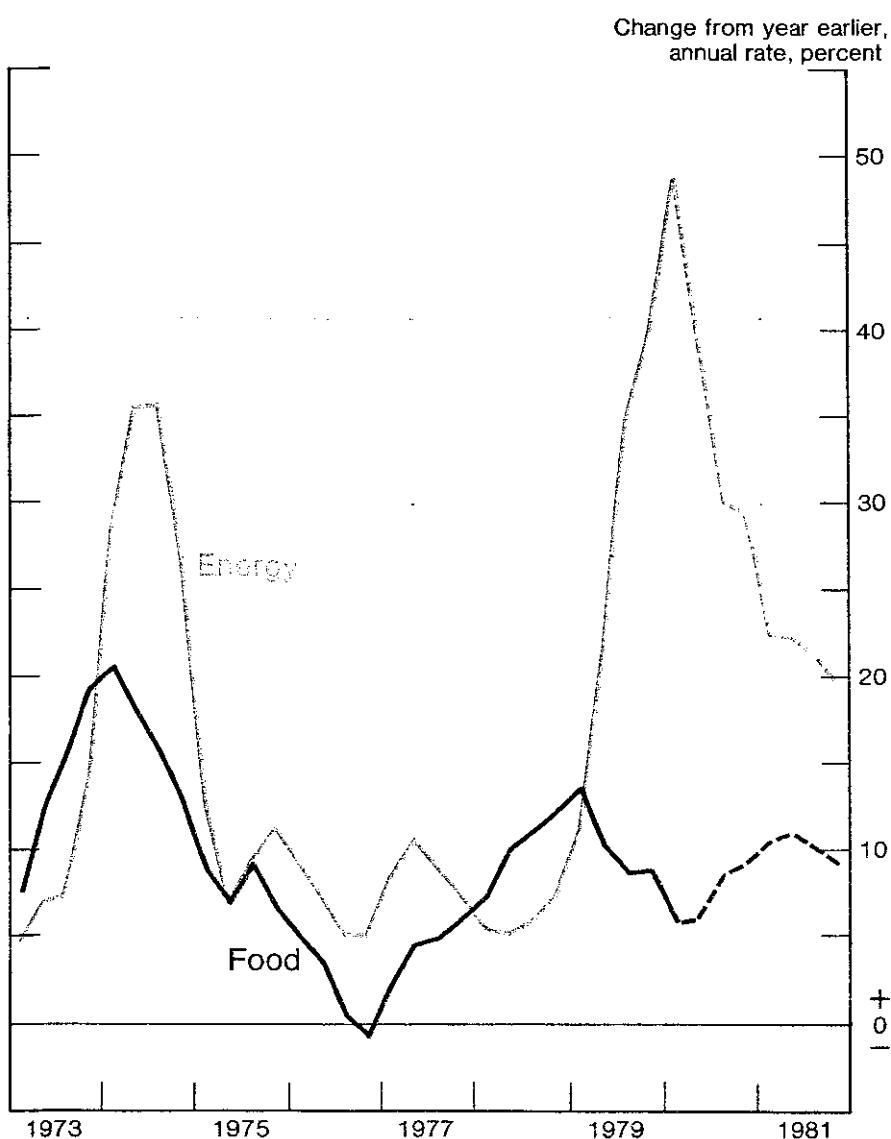
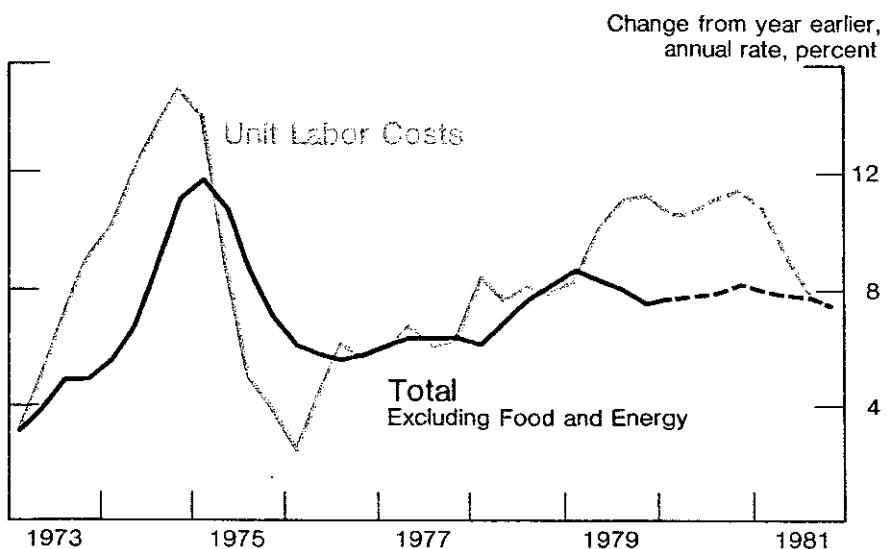
Percent



Unit Cost Indicators Nonfarm Business Sector

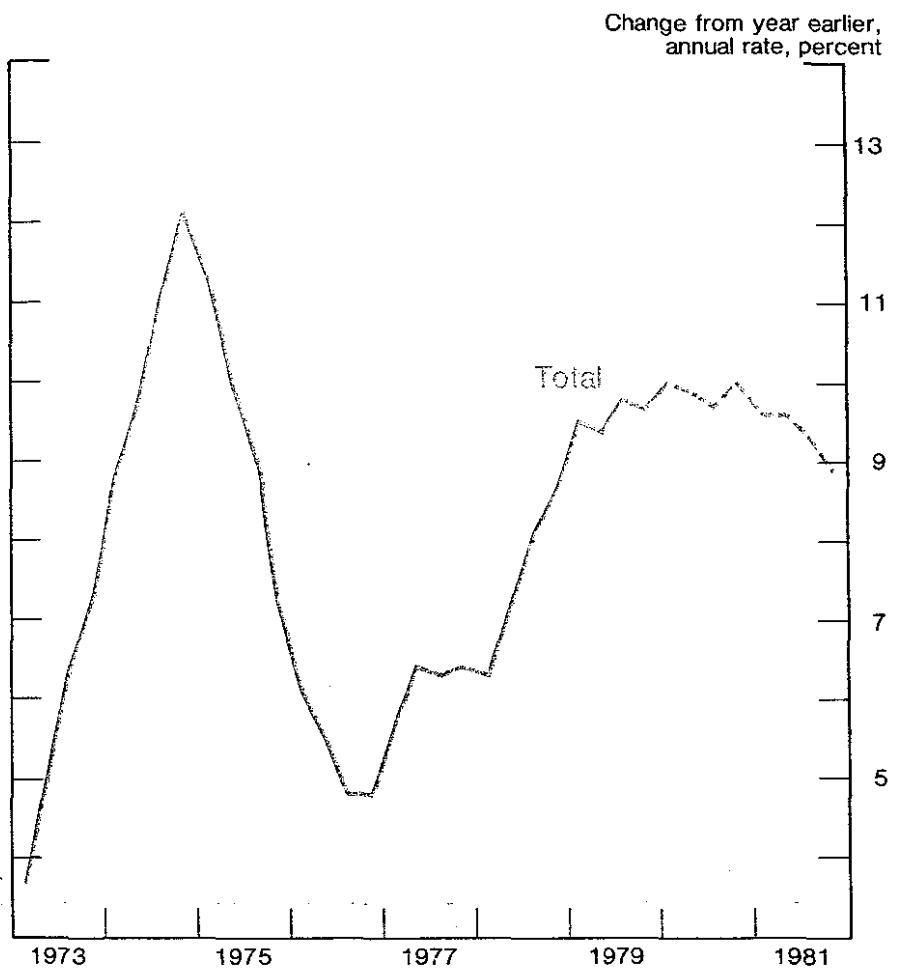


Prices I Gross Business Product

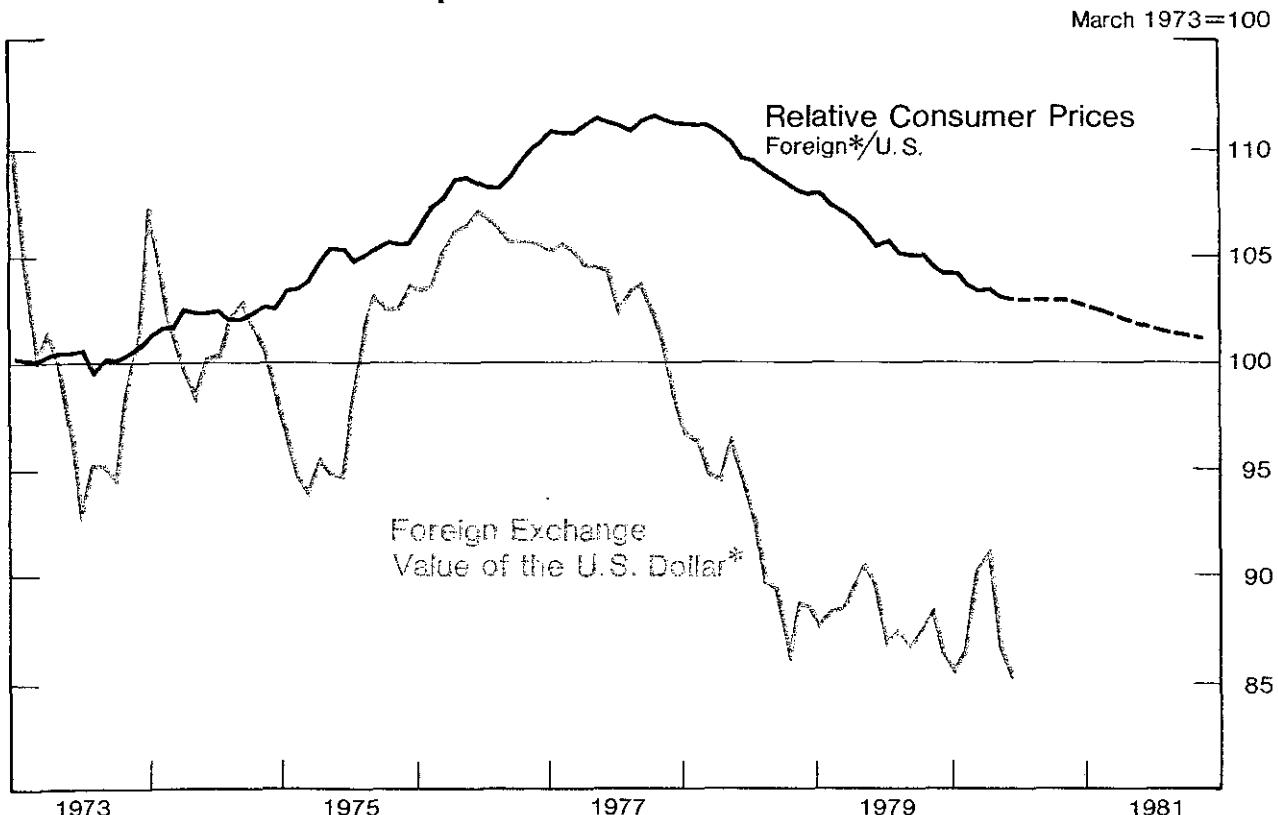


Prices II

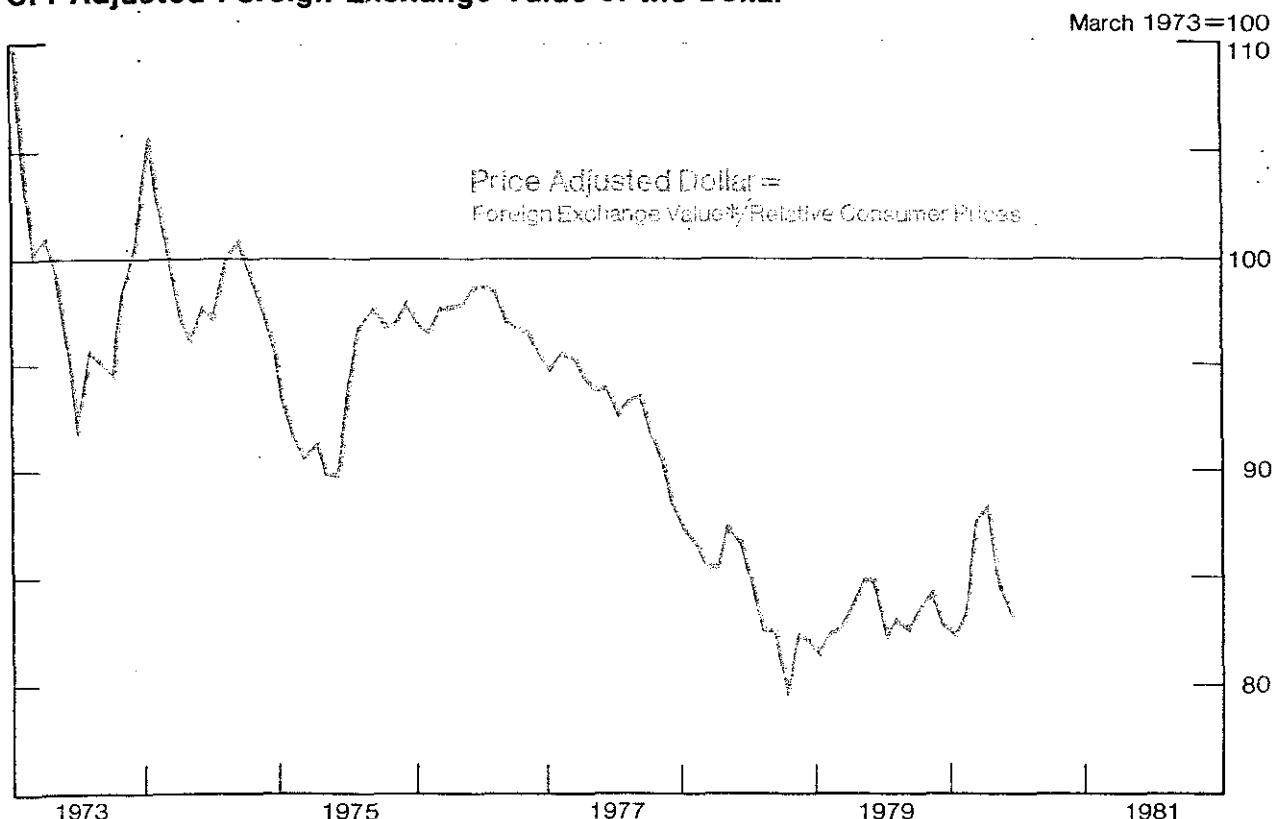
Gross Business Product



U.S. International Price Competitiveness

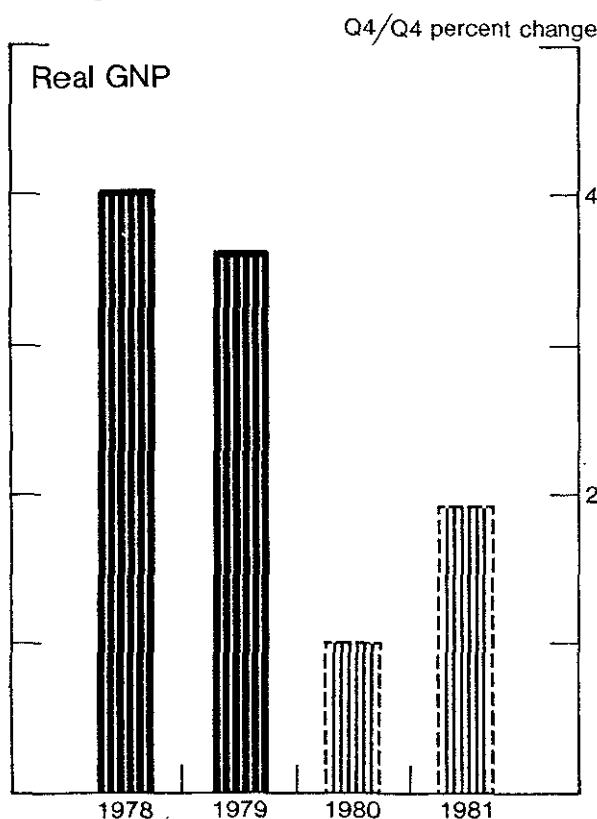


CPI-Adjusted Foreign Exchange Value of the Dollar

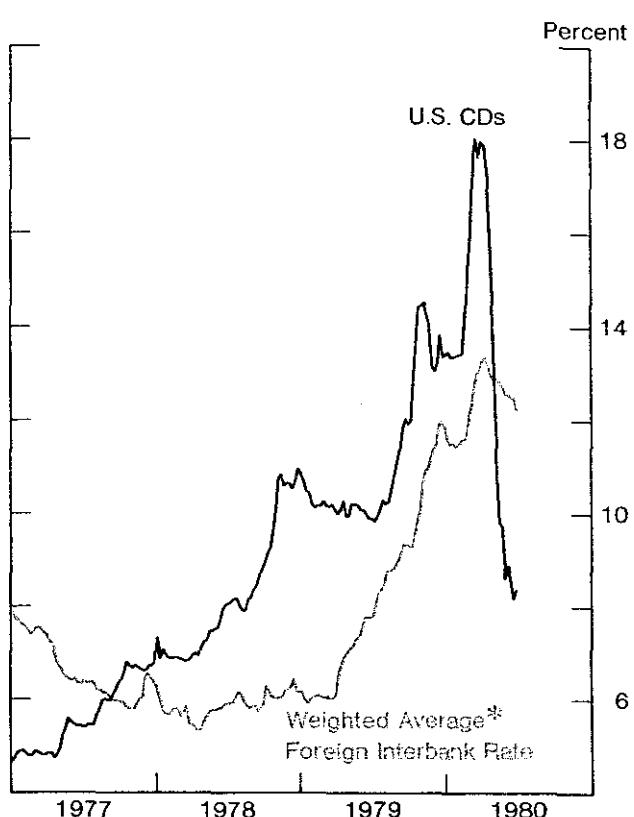


* Weighted average against G-10 countries plus Switzerland using total 1972-1976 average trade of these countries.

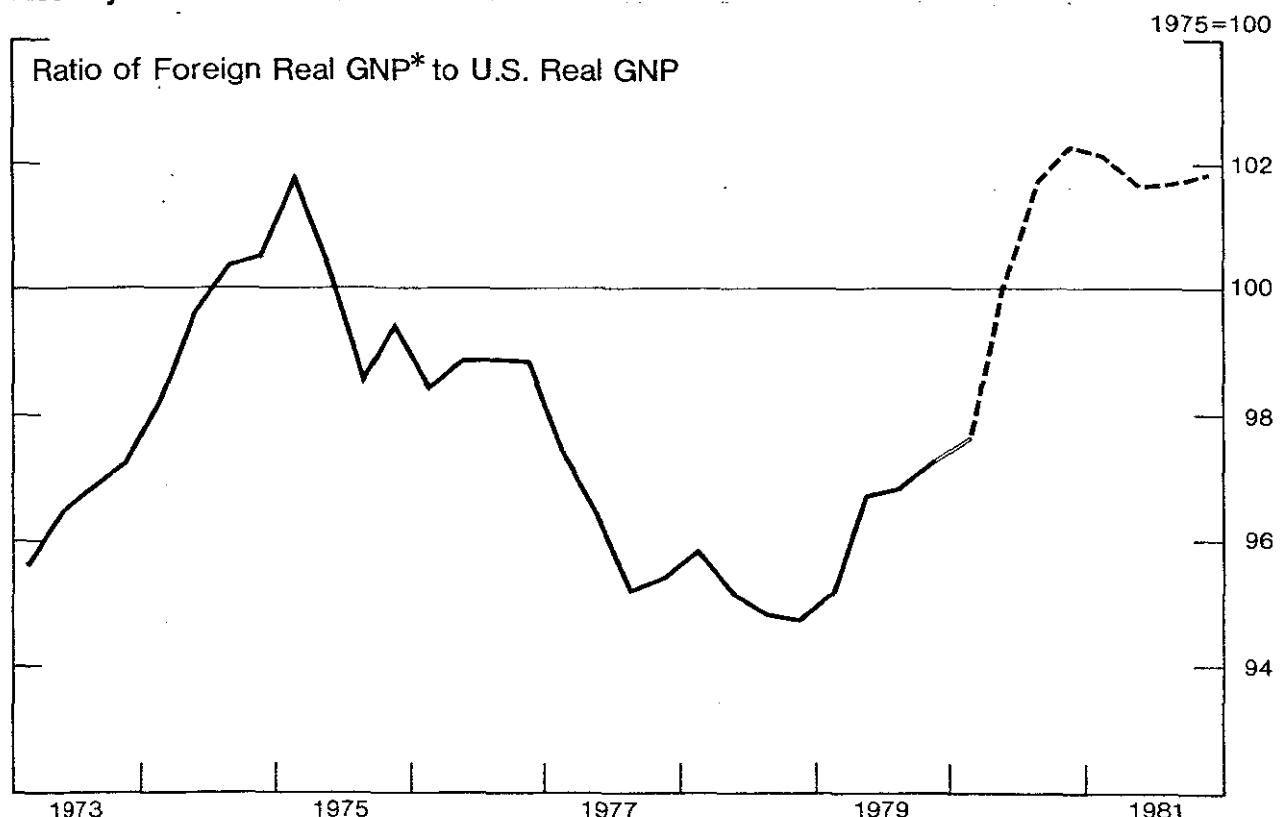
Foreign Growth*



3-Month Interest Rates



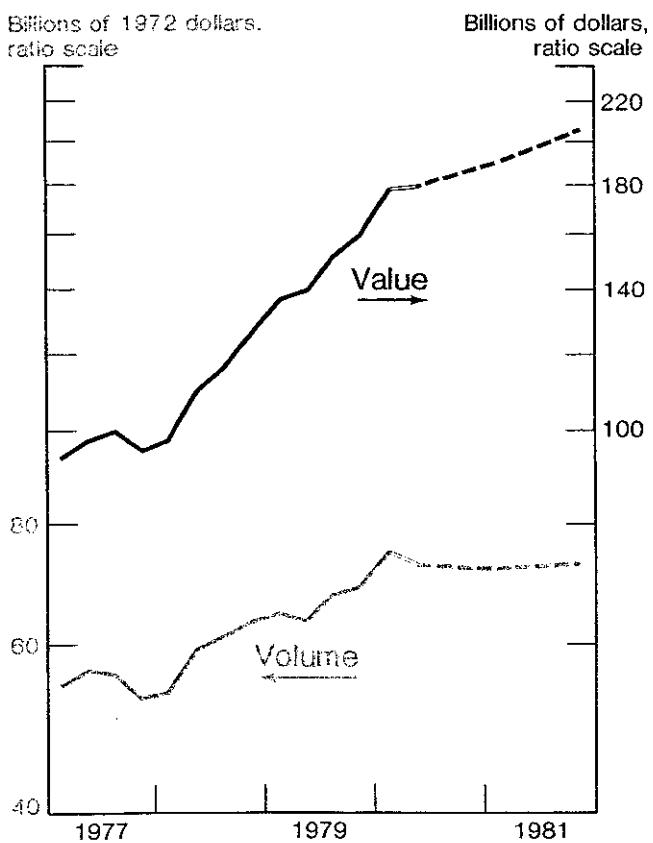
Activity Ratio



* Weighted average of interest rates of other G-10 countries plus Switzerland using total 1972-1976 average trade of these countries.

Nonagricultural Exports

Billions of 1972 dollars,
ratio scale



Price of U.S. Oil imports

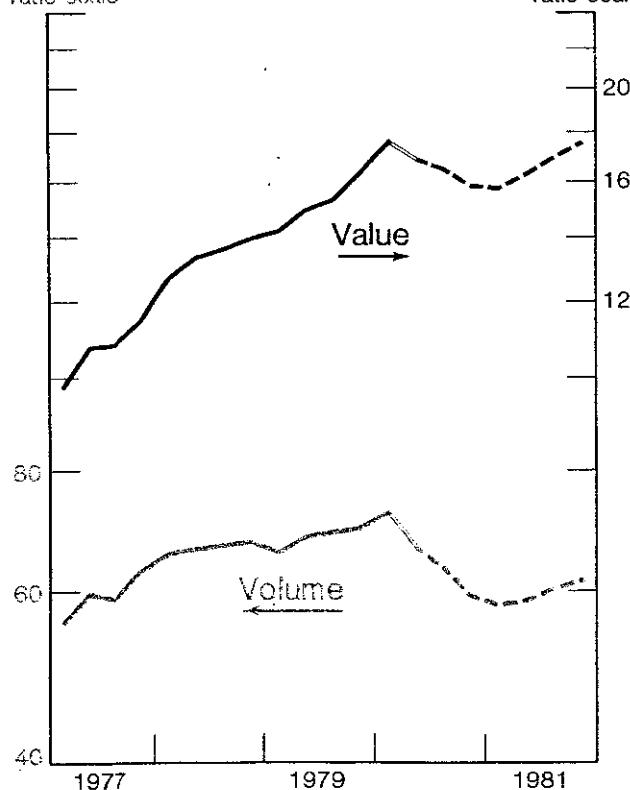
Dollars/barrel
fourth quarter Percentage
change

	Dollars/barrel fourth quarter	Percentage change
1978	13.35	—
1979	23.68	77
1980 ^P	34.20	44
1981 ^P	39.70	16

P=Projection

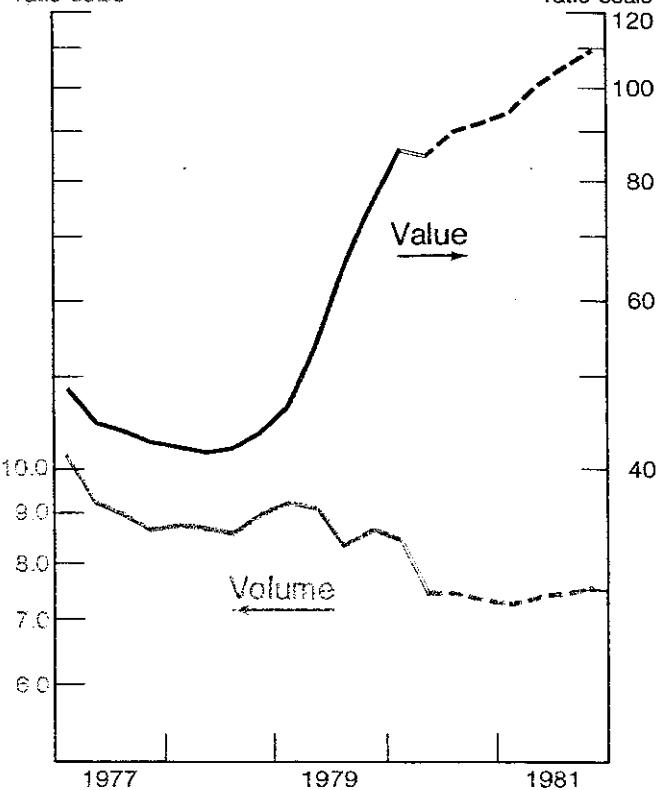
Non-Oil Imports

Billions of 1972 dollars,
ratio scale

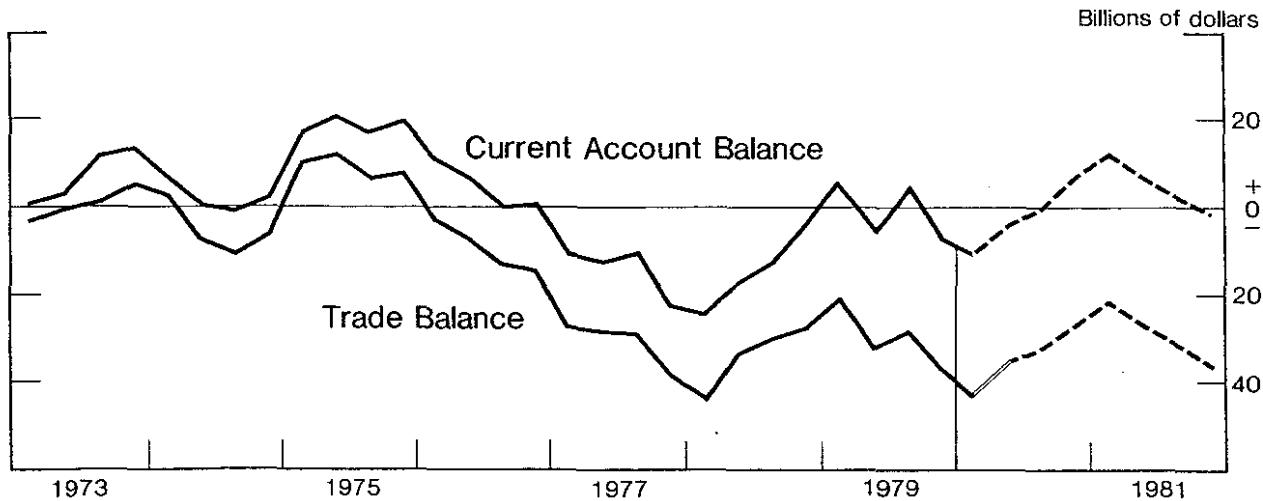


Oil Imports

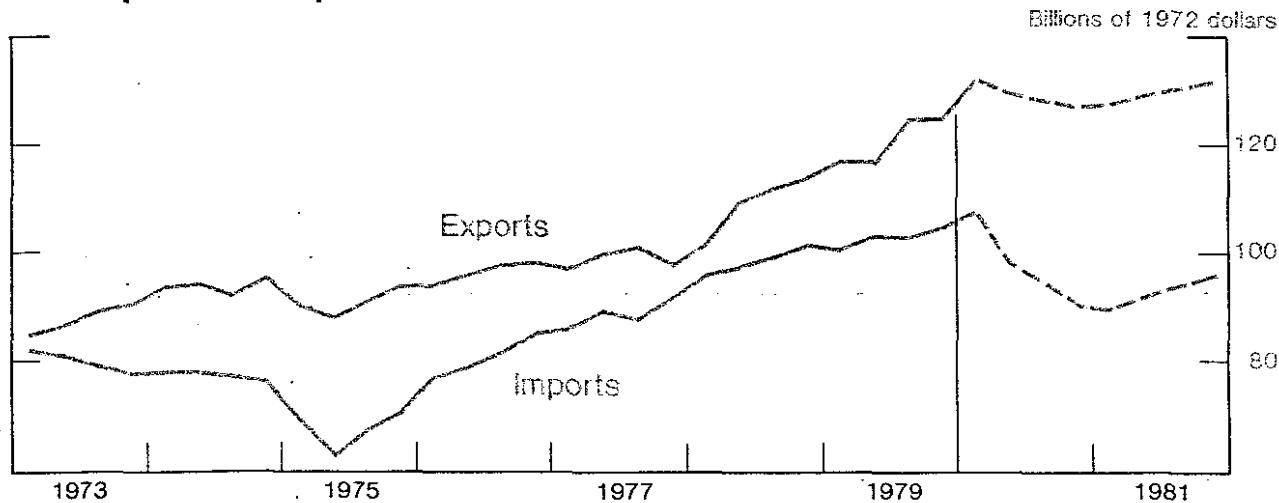
Billions of dollars,
ratio scale Millions of barrels/day,
ratio scale



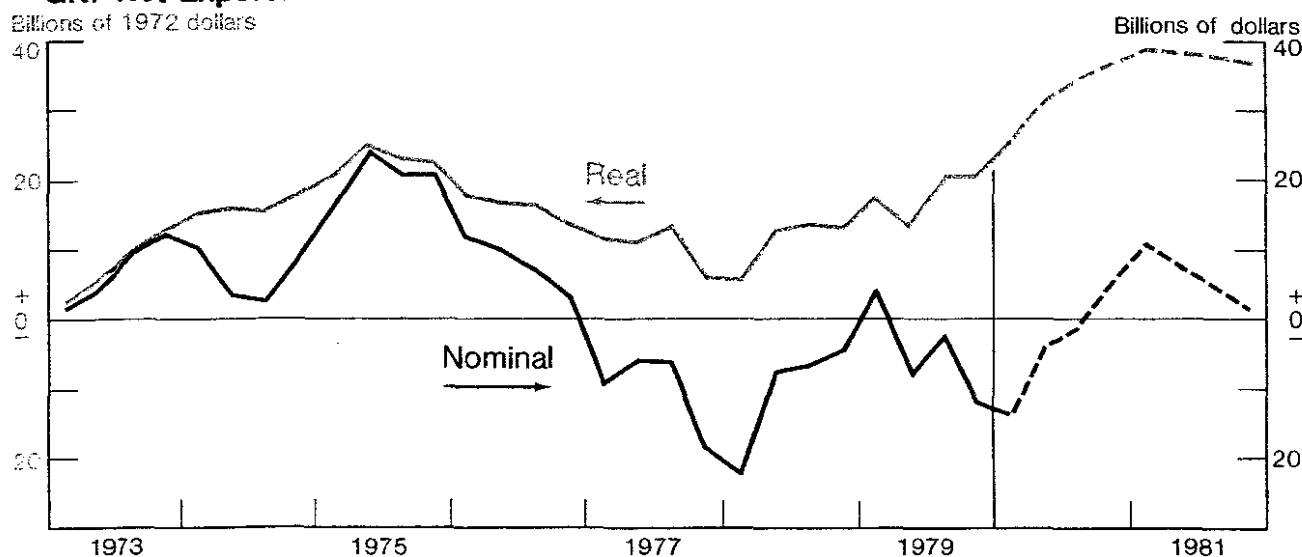
Merchandise Trade and Current Account Balances



GNP Exports and Imports of Goods and Services

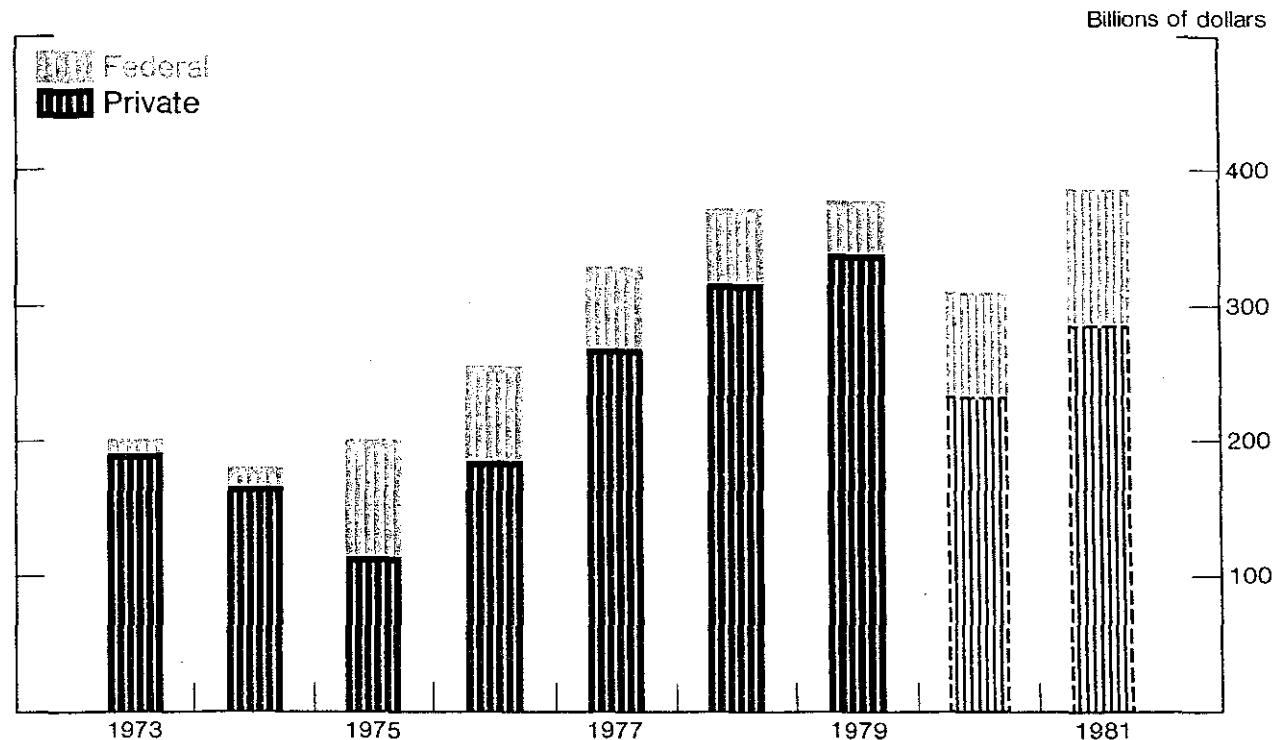


GNP Net Exports

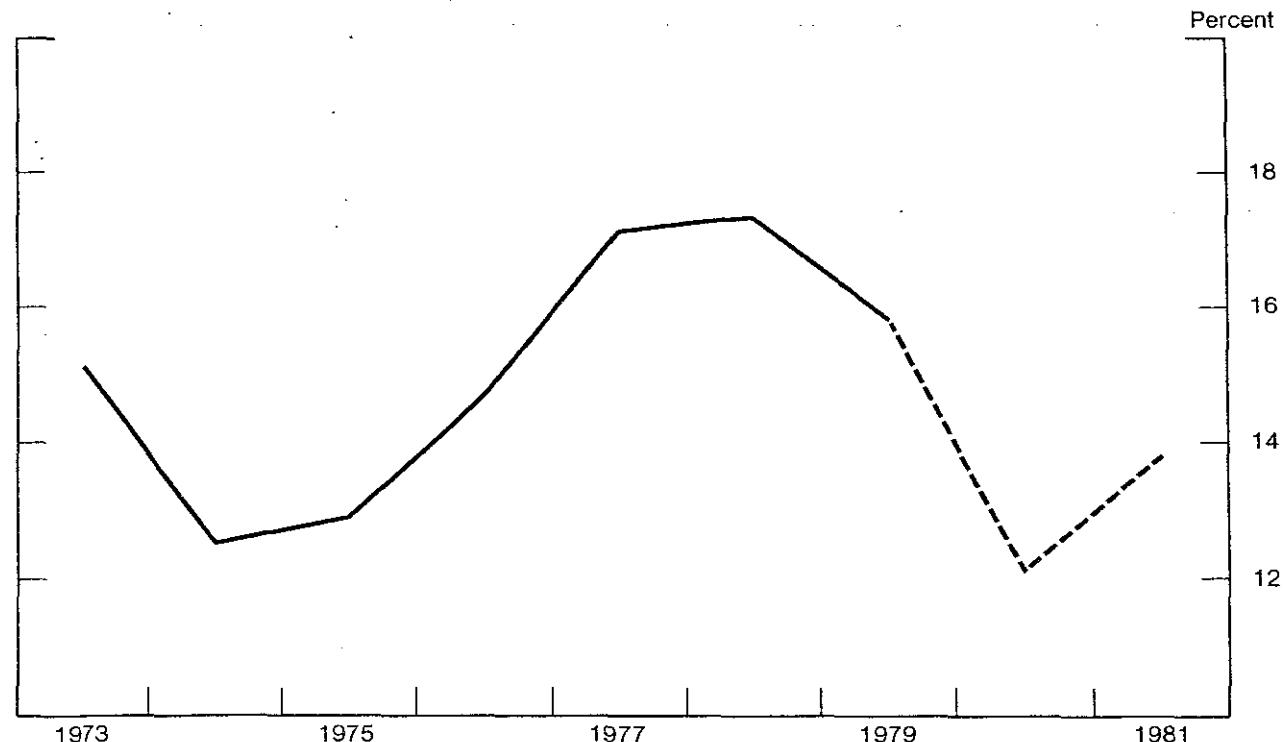


Domestic Nonfinancial Sectors

Funds Raised

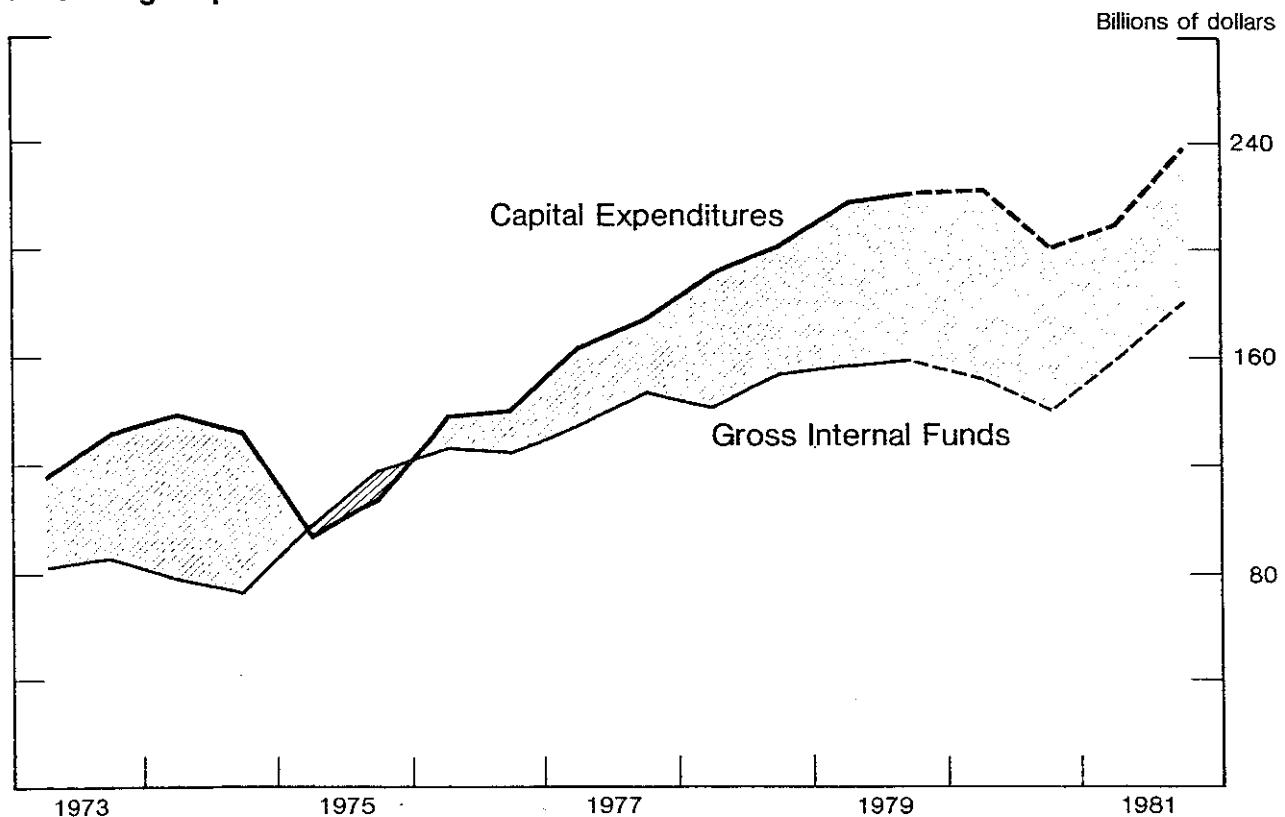


Funds Raised as a Percent of GNP

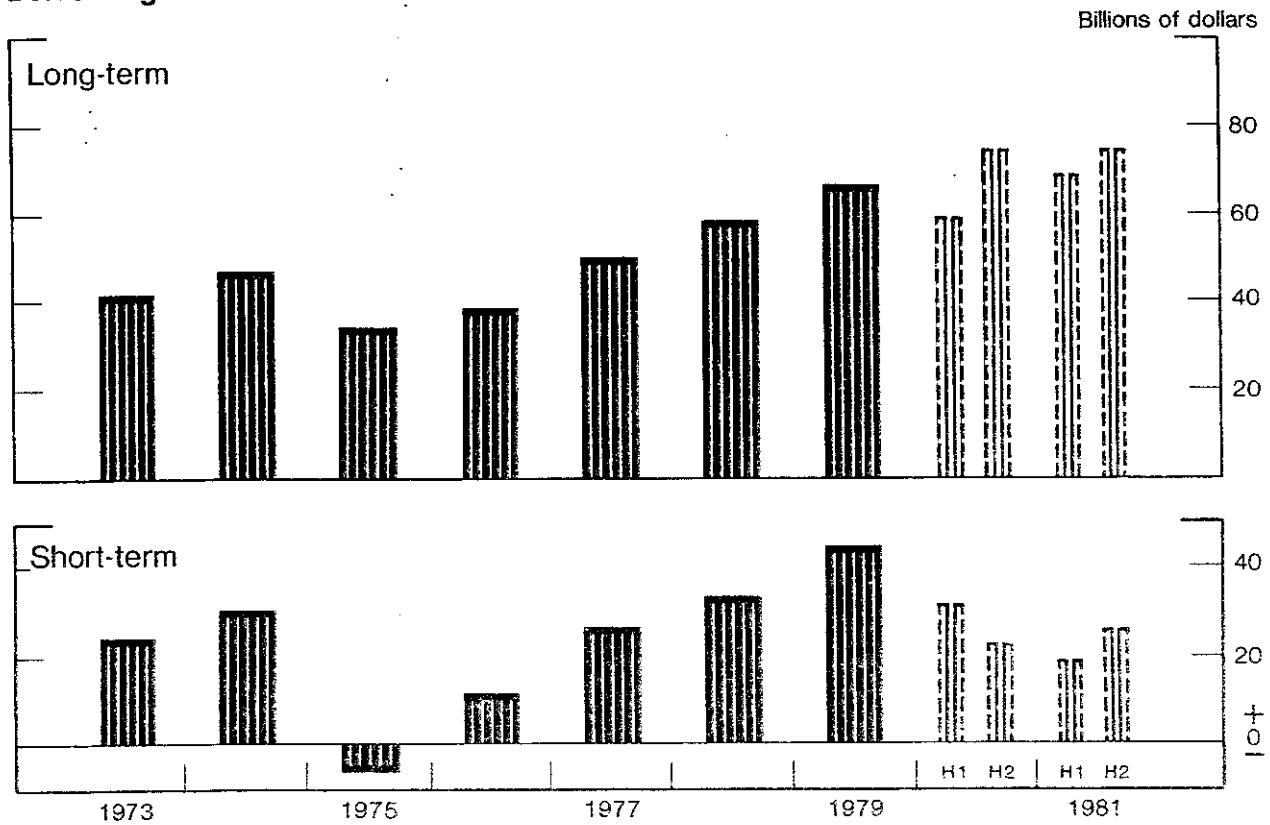


Corporate Finance

Financing Gap

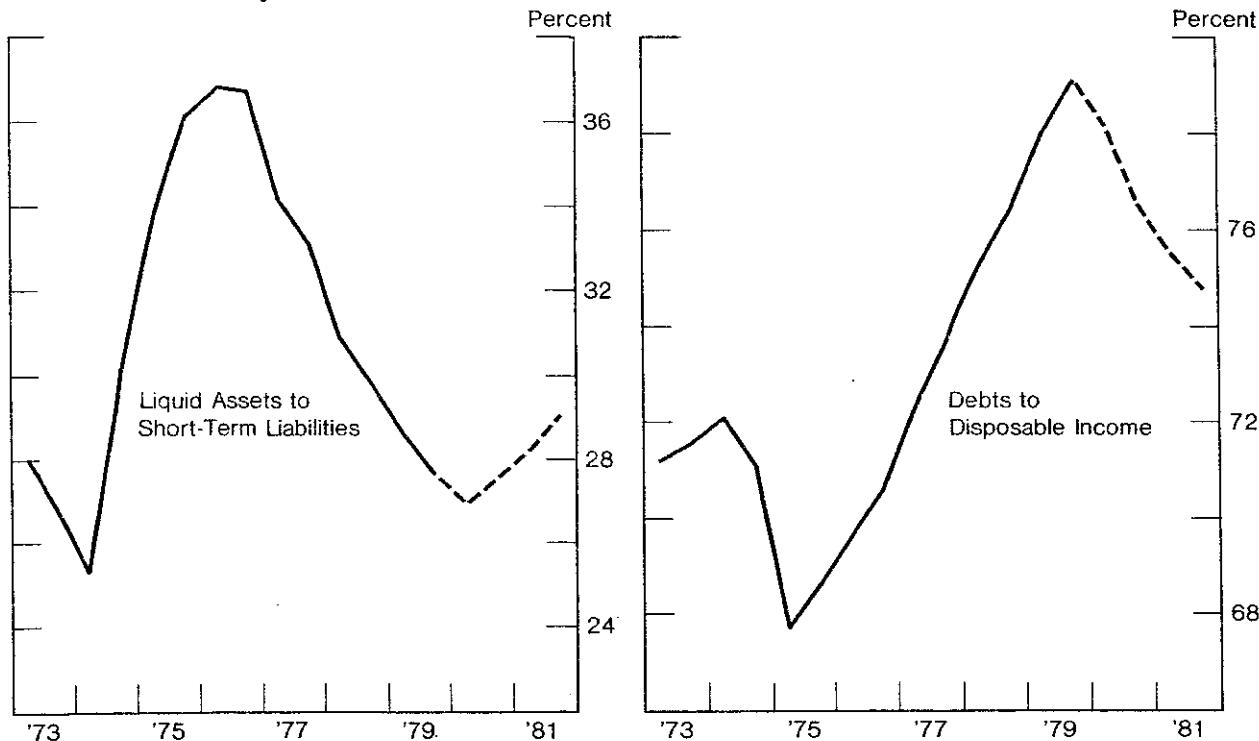


Borrowing

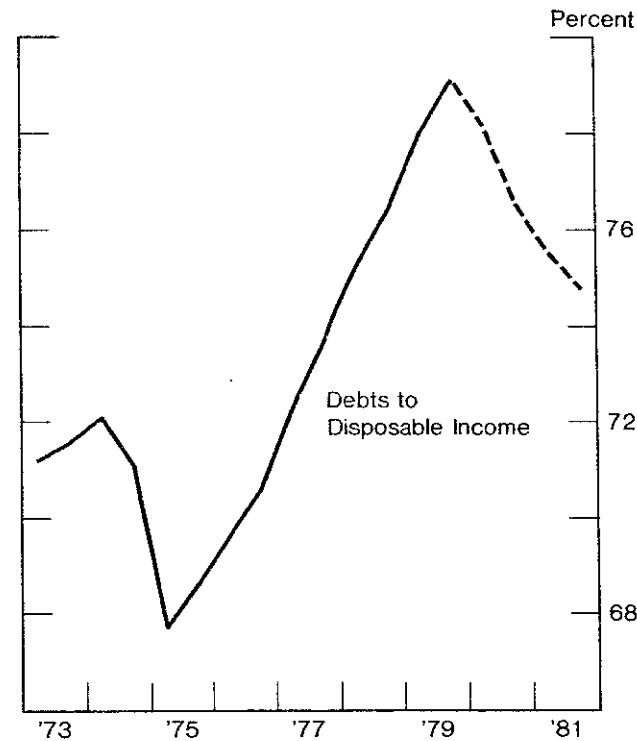


Selected Balance Sheet Ratios

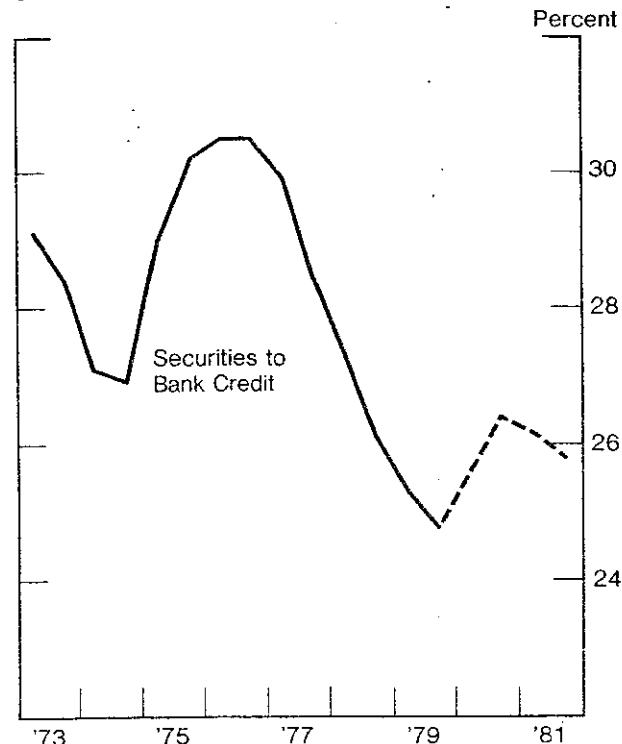
Nonfinancial Corporations



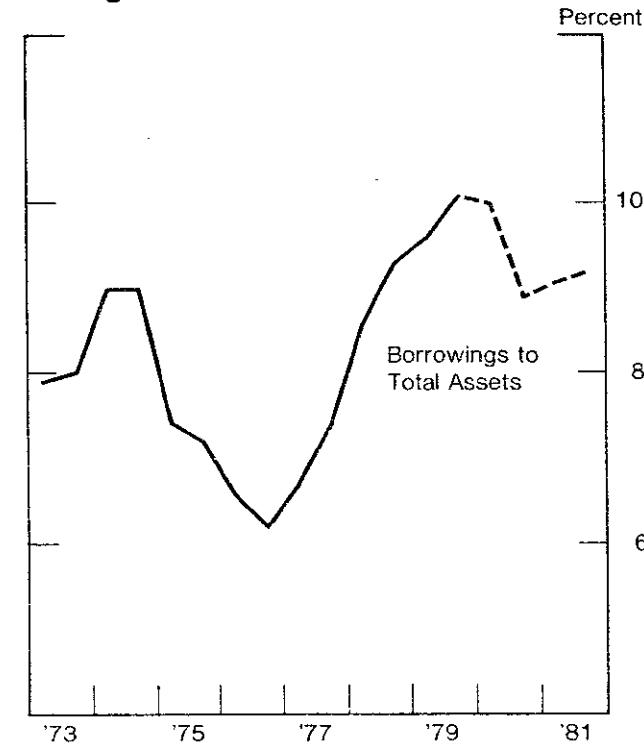
Households

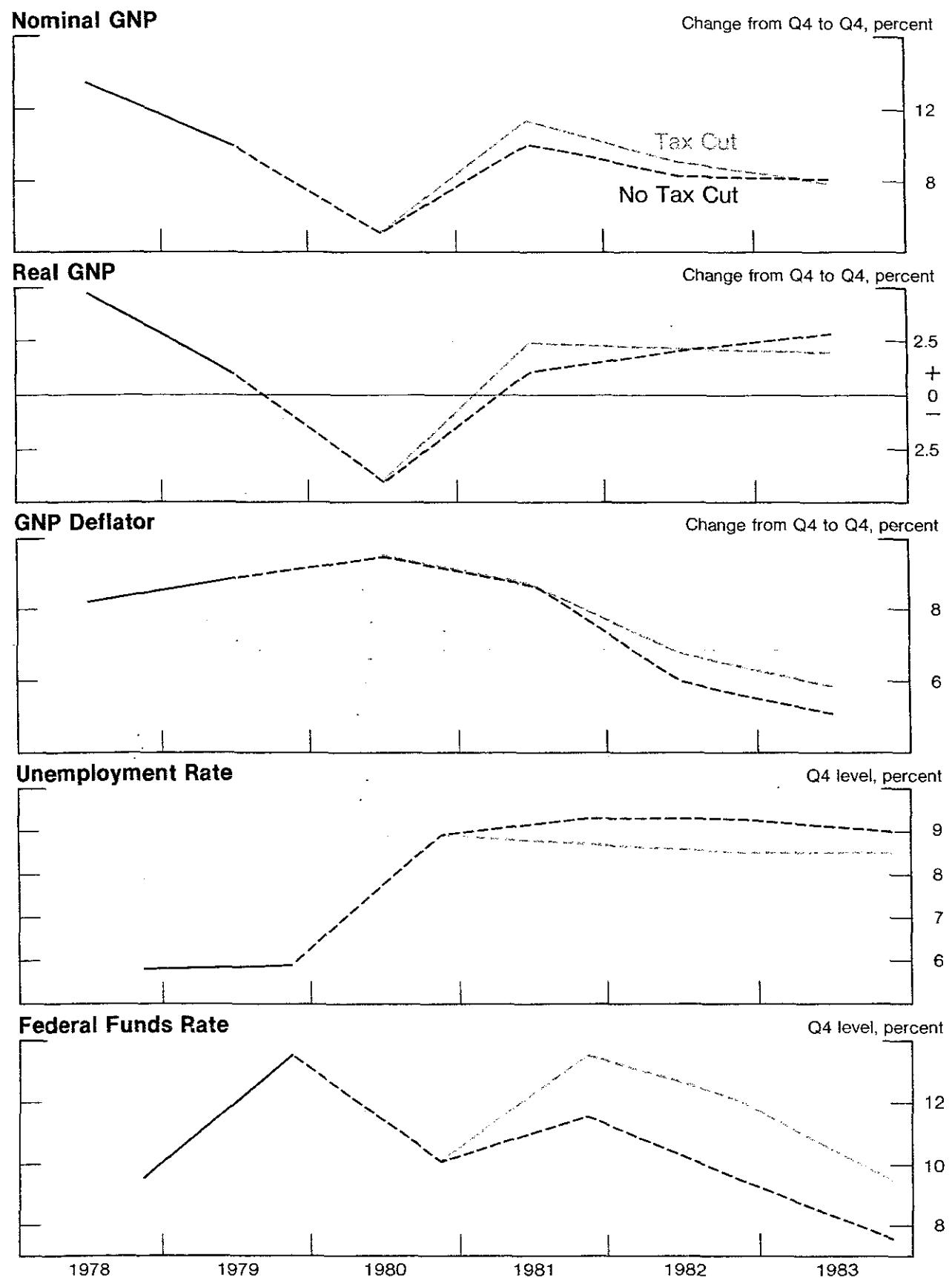


Commercial Banks



Savings and Loan Associations





Comparison of Staff and Administration Economic Forecasts

	1980		1981	
	Staff	Administration	Staff	Administration
Nominal GNP				
Percent change, Q4 to Q4	5.1	6.7	11.4	13.7
Real GNP				
Percent change, Q4 to Q4	-4.0	-3.1	2.5	3.7
GNP Implicit Deflator				
Percent change, Q4 to Q4	9.4	10.1	8.8	9.7
Unemployment Rate				
Q4 level, percent	8.9	8.5	8.7	8.1